

# Economic Outlook

Presented to  
American Society of Women Accountants

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Chief Economist & Executive Director

April 23, 2013  
Bellingham, Washington



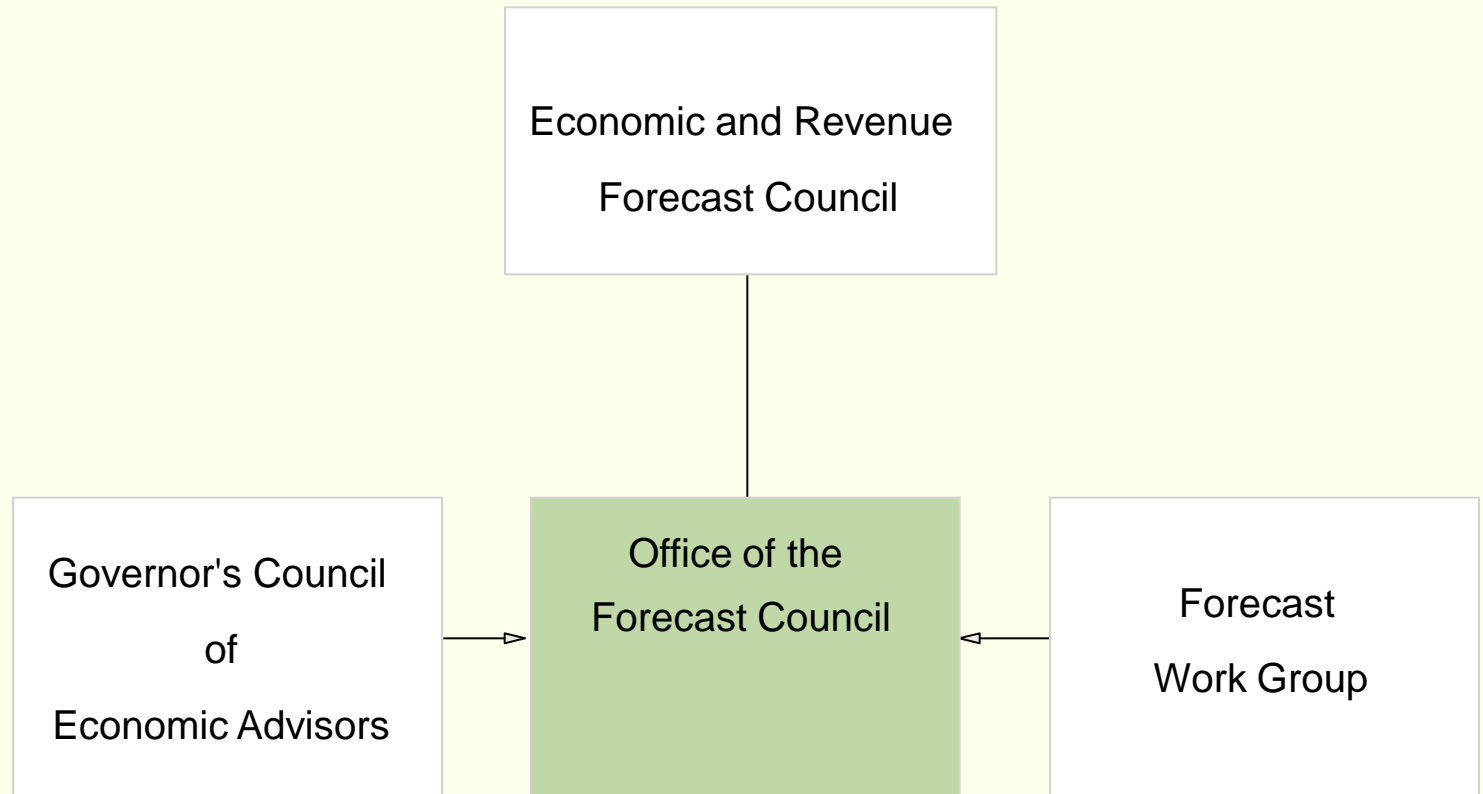
**WASHINGTON STATE  
ECONOMIC AND REVENUE FORECAST COUNCIL**



# Forecast Oversight

## **ERFC**

- Council hires Executive Director for three year term
- Director hires staff
- Total staff of five



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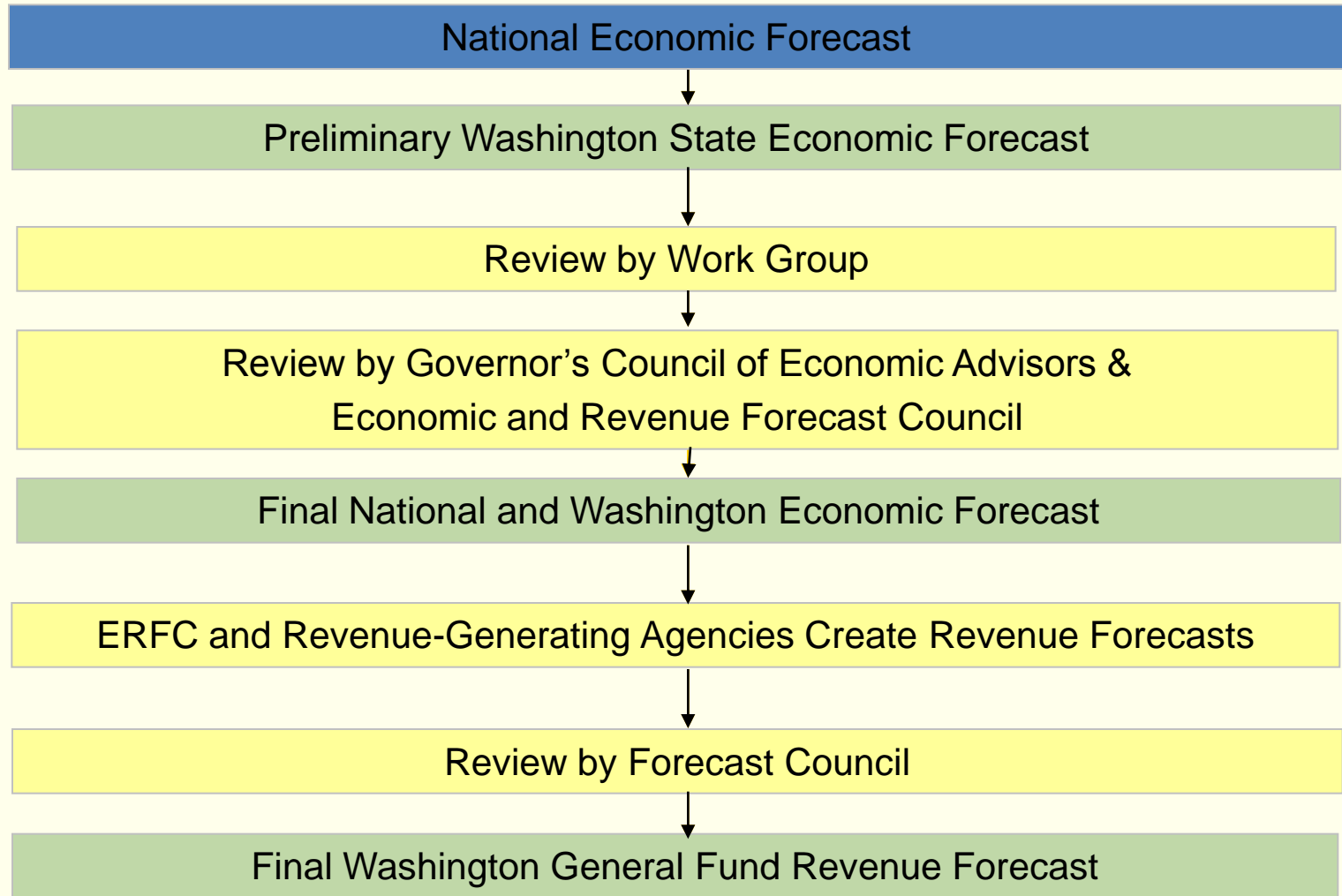
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# ERFC Forecast Process

The national economic forecast is provided by Global Insight



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# Forecast summary

- Both the U.S. and Washington economies continue to grow slowly
- Labor markets remain weak, but unemployment rates are slowing declining
- Both nationally and in Washington, residential construction and home prices continue to recover
- Uncertainty remains very high, mostly due to on-going concerns about federal government fiscal policy, Europe, and China



# The state's risk matrix shows most risks from outside state

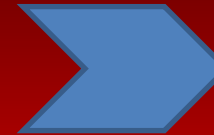


## Washington's Economy

EUROPE  
Sovereign  
Debt

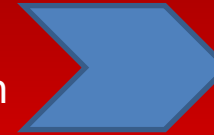


EUROPE  
Banks

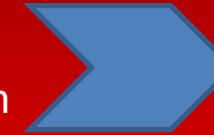


U.S.  
Banks

European  
Recession



Asia  
Slowdown



U.S.  
Trade

• Fiscal Budget, Tax  
& Debt Issues

• Geopolitical turmoil

Exports

**State of  
Washington**

**Pluses**  
**Aerospace  
Software  
Housing**

**Minuses**  
**State & Local  
Government**

Source: ERFC

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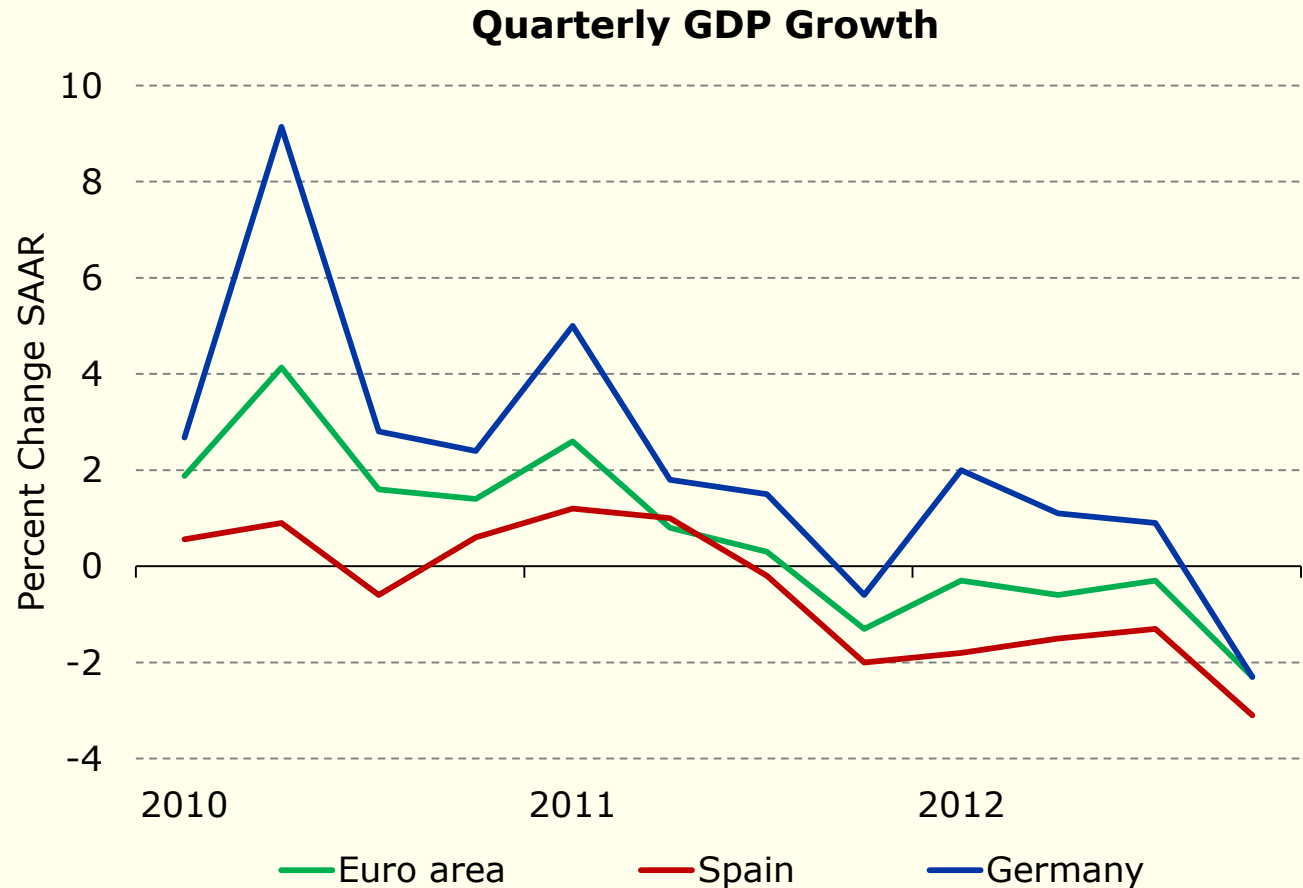


# Euro area GDP growth is negative

Eurozone  
Forecast:

2013: -0.4%

2014: 0.9%



Source: Eurostat; data through 2012Q4

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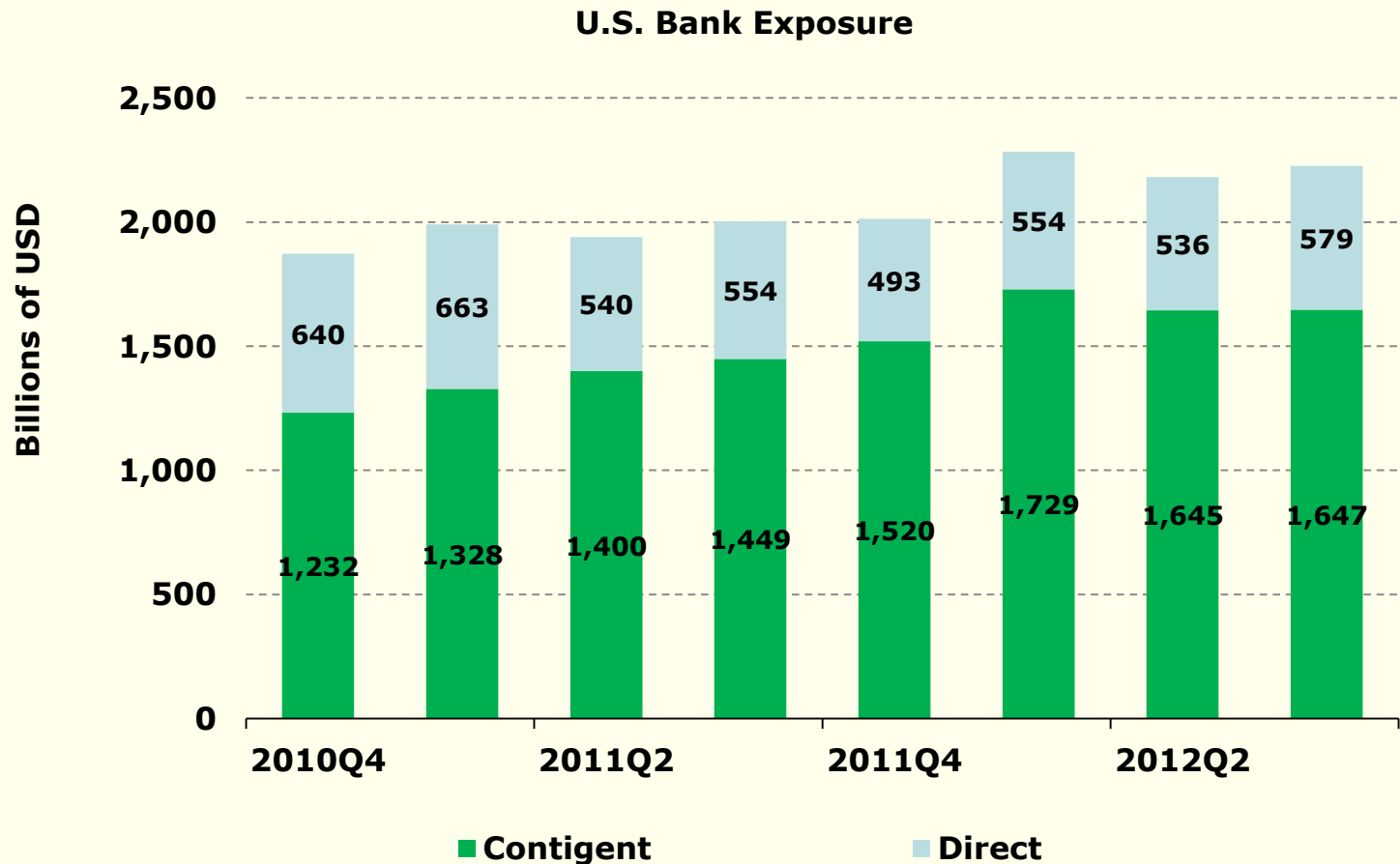
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# U.S. banks continue to have significant exposure to European banks

Contingent liabilities continue to increase

Total value at risk remains close to \$2 trillion



Source: Bank of International Settlements, 2012 Q3

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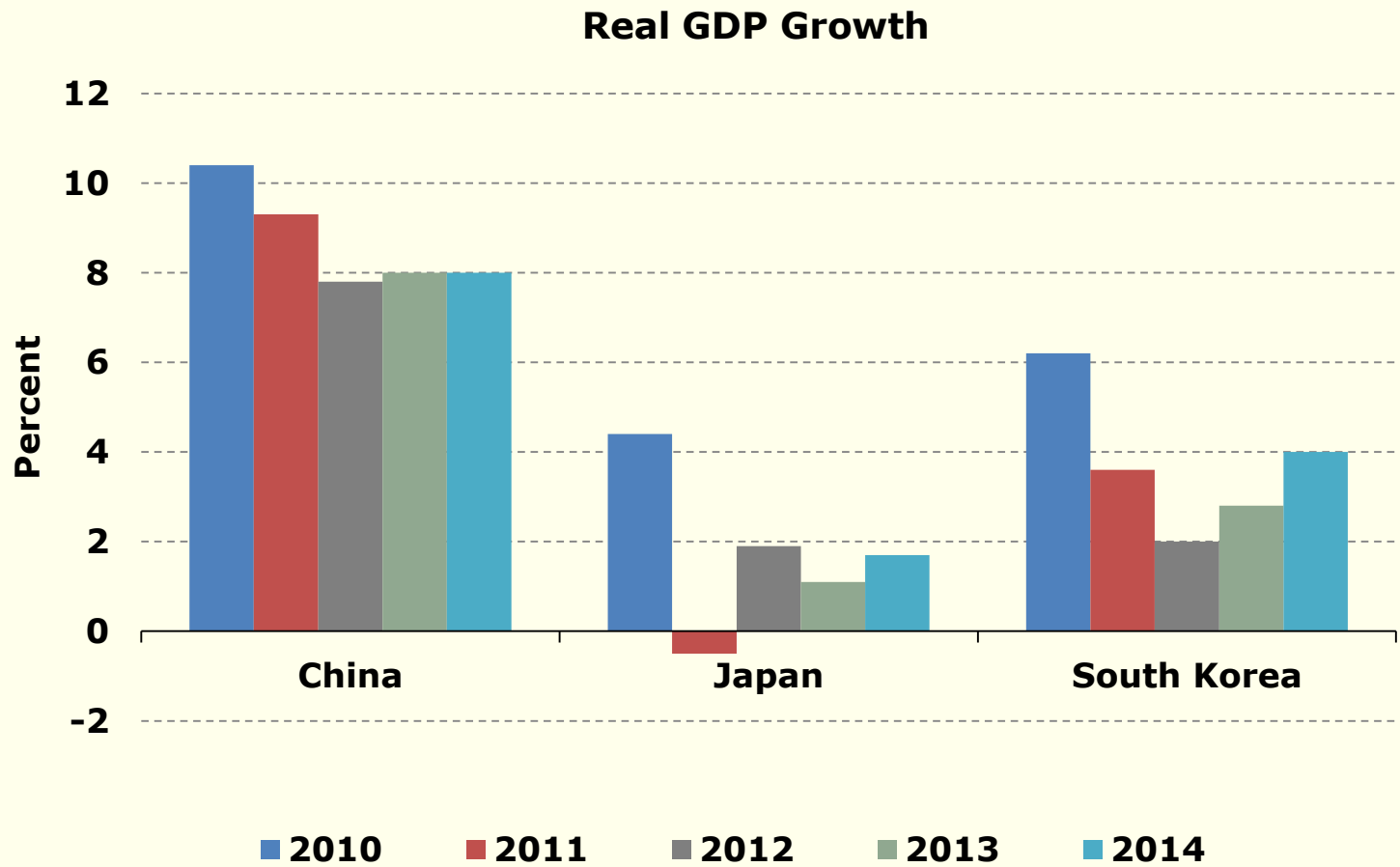
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# Asian economic growth has slowed but appears to be improving



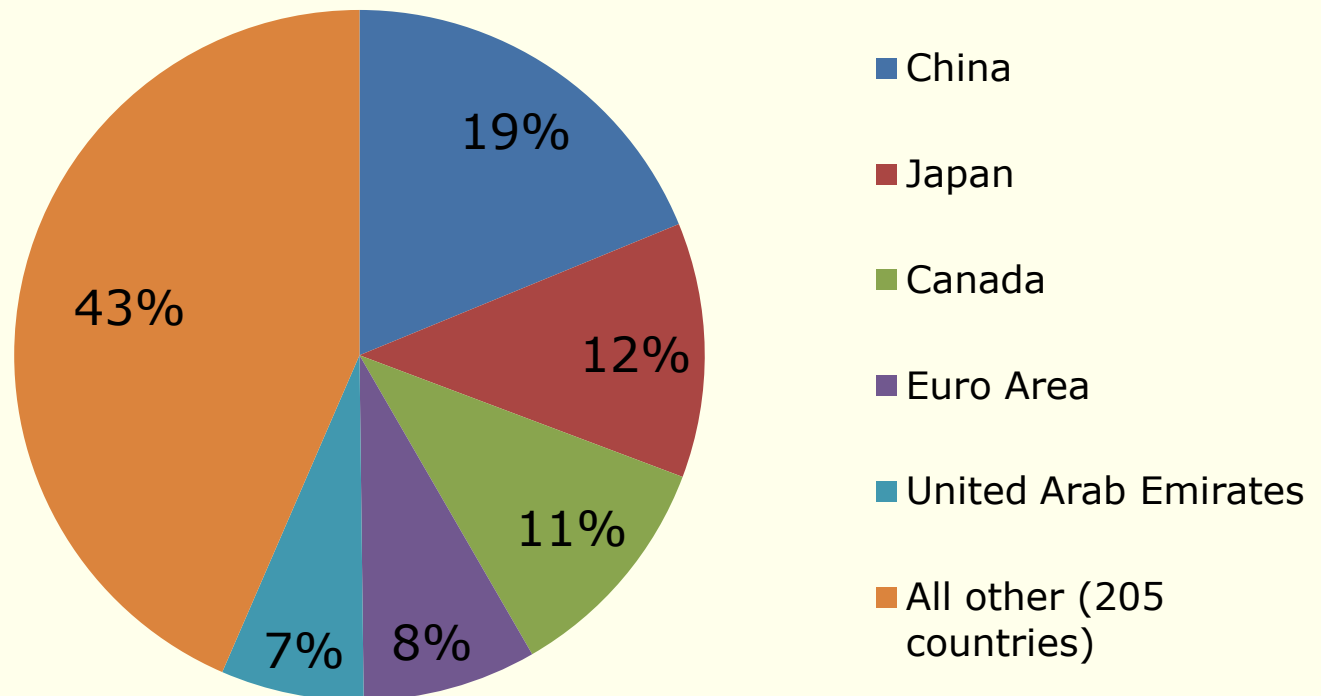
Source: Blue Chip Economic Indicators April 2013, historical data through 2012





# China is Washington's Top Export Destination

## Exports by destination



Source: WISER Trade Data; data through 2012

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# Federal budget and tax changes

## Tax increases effective January 1<sup>st</sup>

- Payroll tax: \$1,000 more in taxes for family with \$50,000 in wages
- Higher taxes on wages, capital gains for upper income (\$450,000+) families

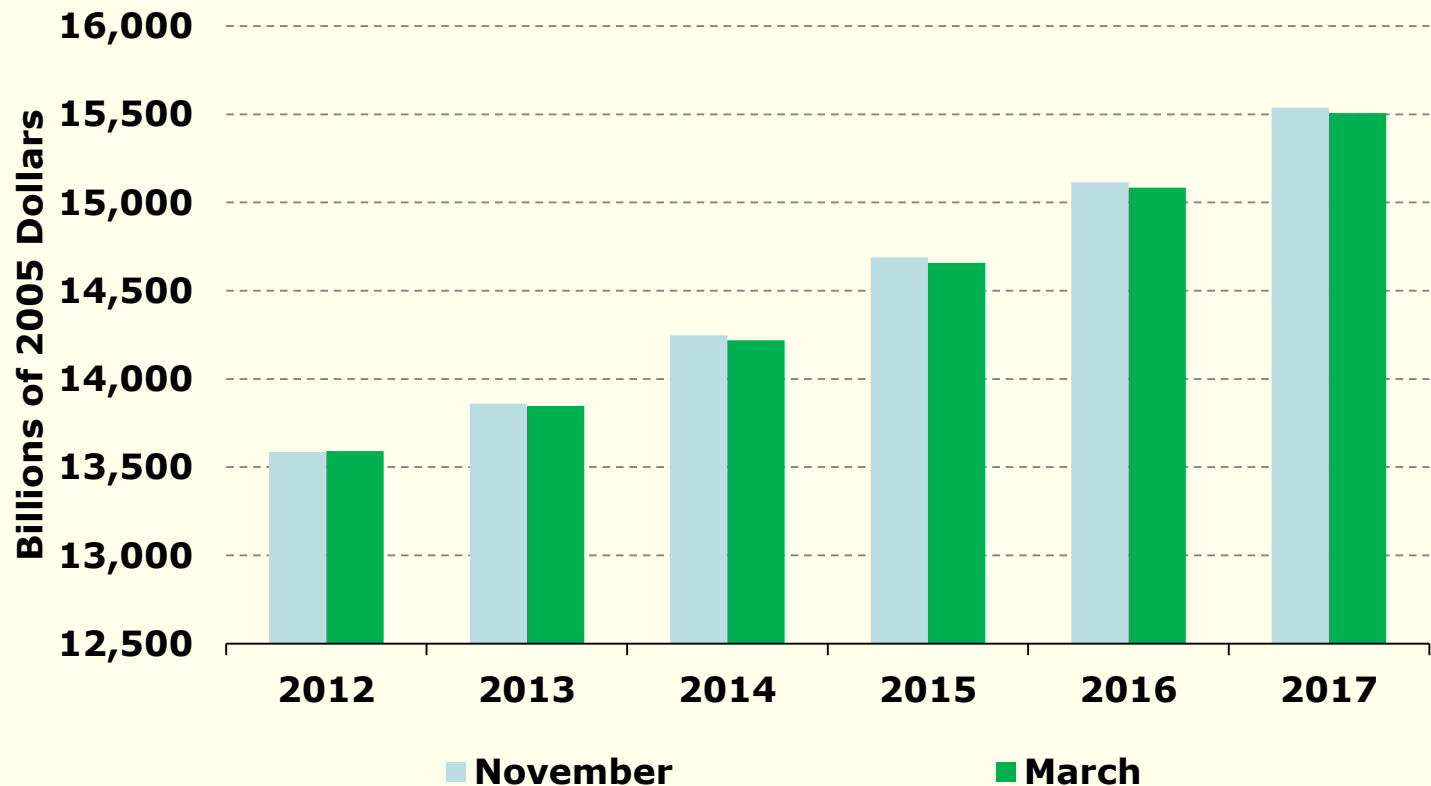
## Deficit reduction

- Baseline assumes sequester through June
- \$35 B in spending cuts for 2013
- Additional \$912 B in taxes, spending cuts FFY 2014 - 2023



# U.S. GDP Forecast Slightly Lower

**Blue Chip Consensus Real GDP forecast**



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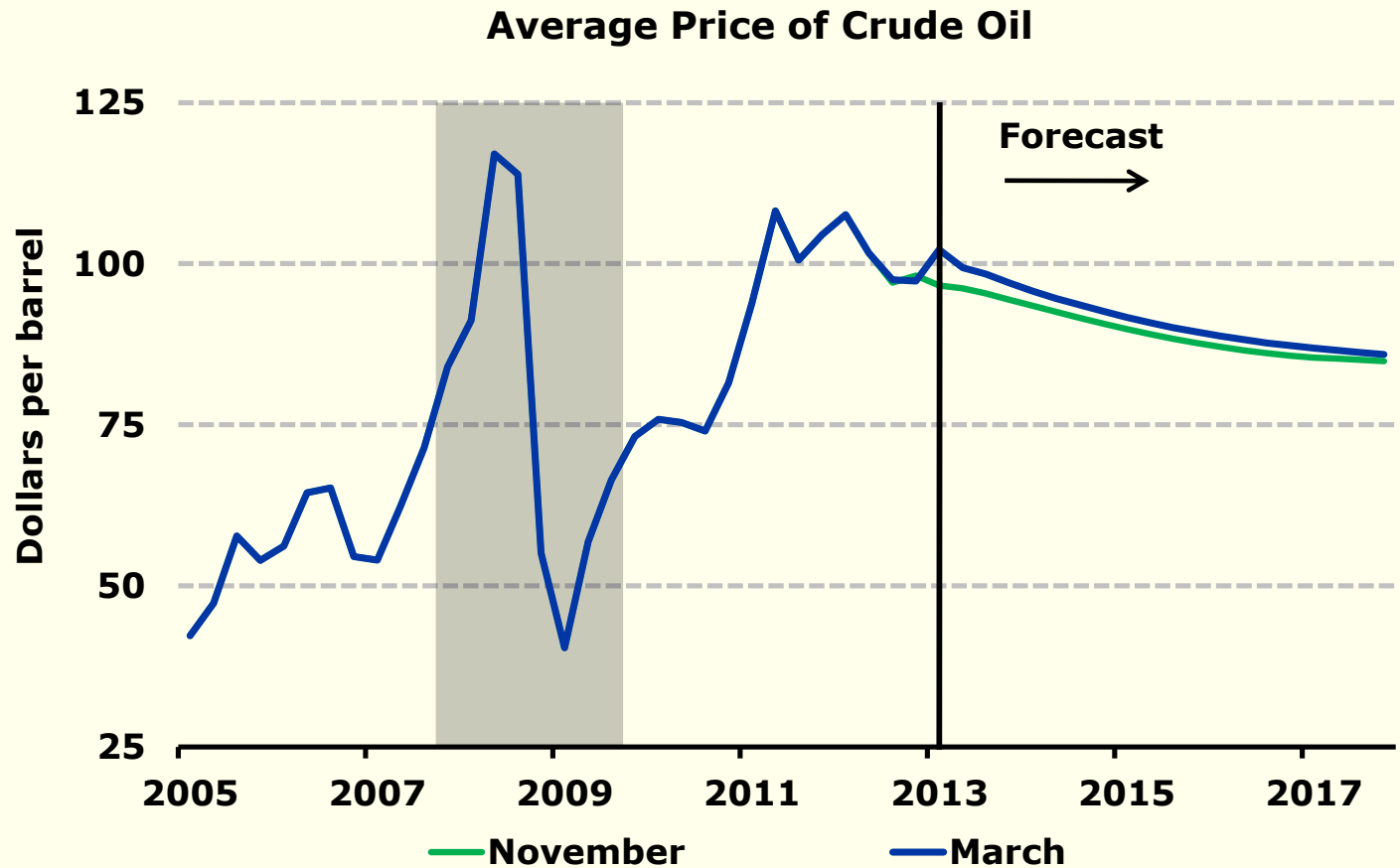
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Source: BEA, Blue Chip Economic Indicators March 2013; historical data through 2012

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# Oil prices: higher than in November but expected to decline

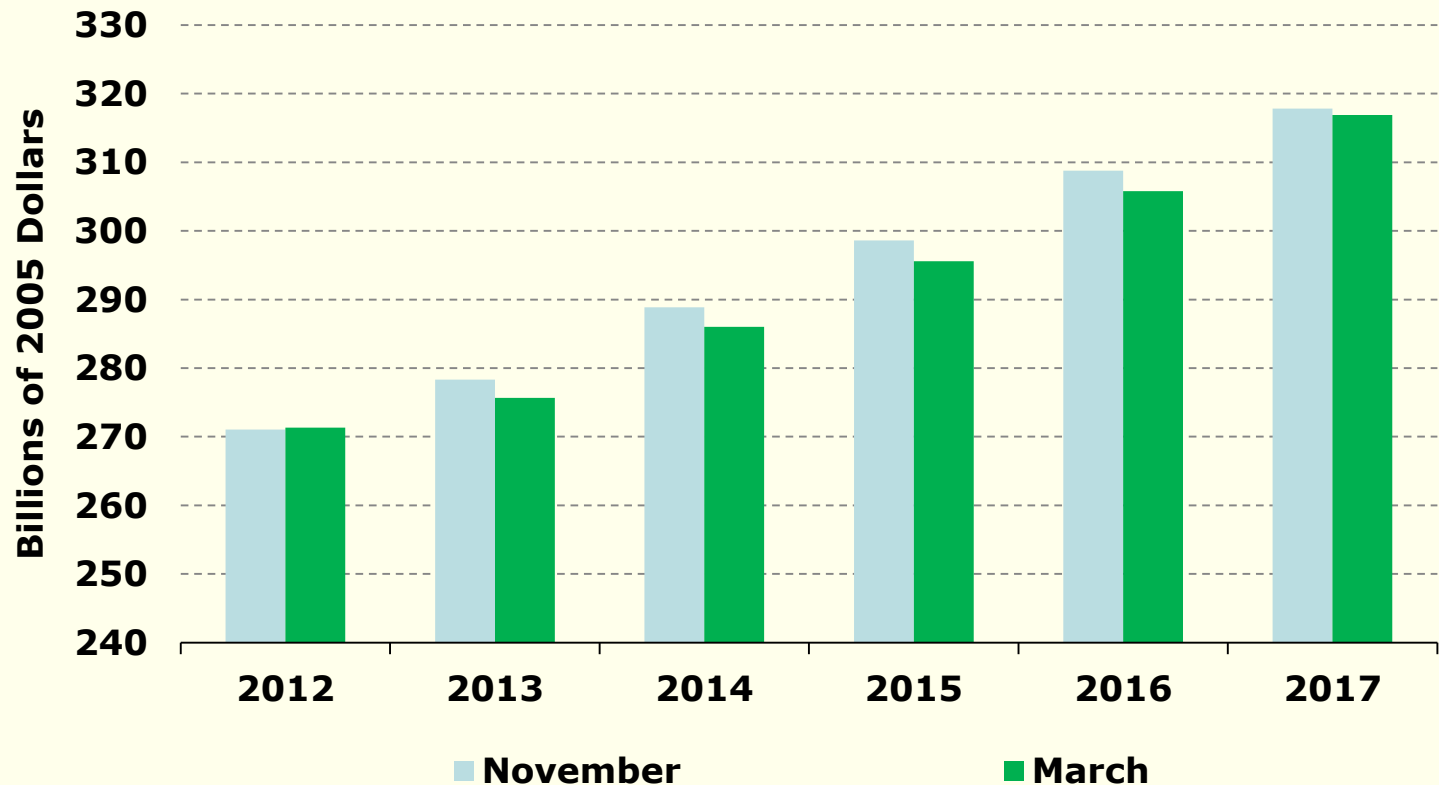


Source: DOE, ERFC March 2013 forecast; historical data through 2013Q1



# WA Personal Income Forecast Slightly Lower

**Washington Real Personal Income**



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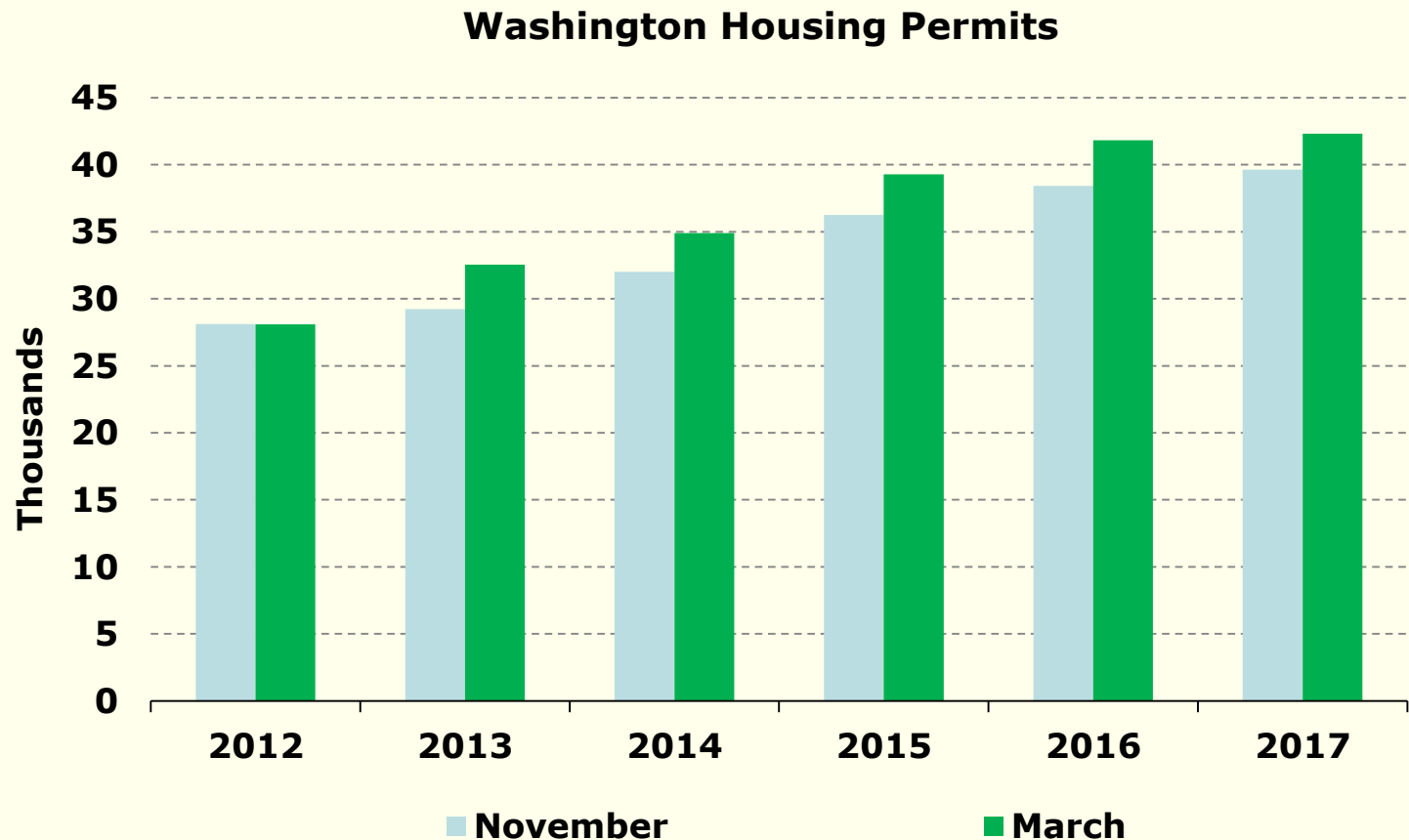
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Source: BEA, ERFC March 2013 Forecast; historical data through 2012

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# Washington Housing Permits Forecast is Slightly Higher



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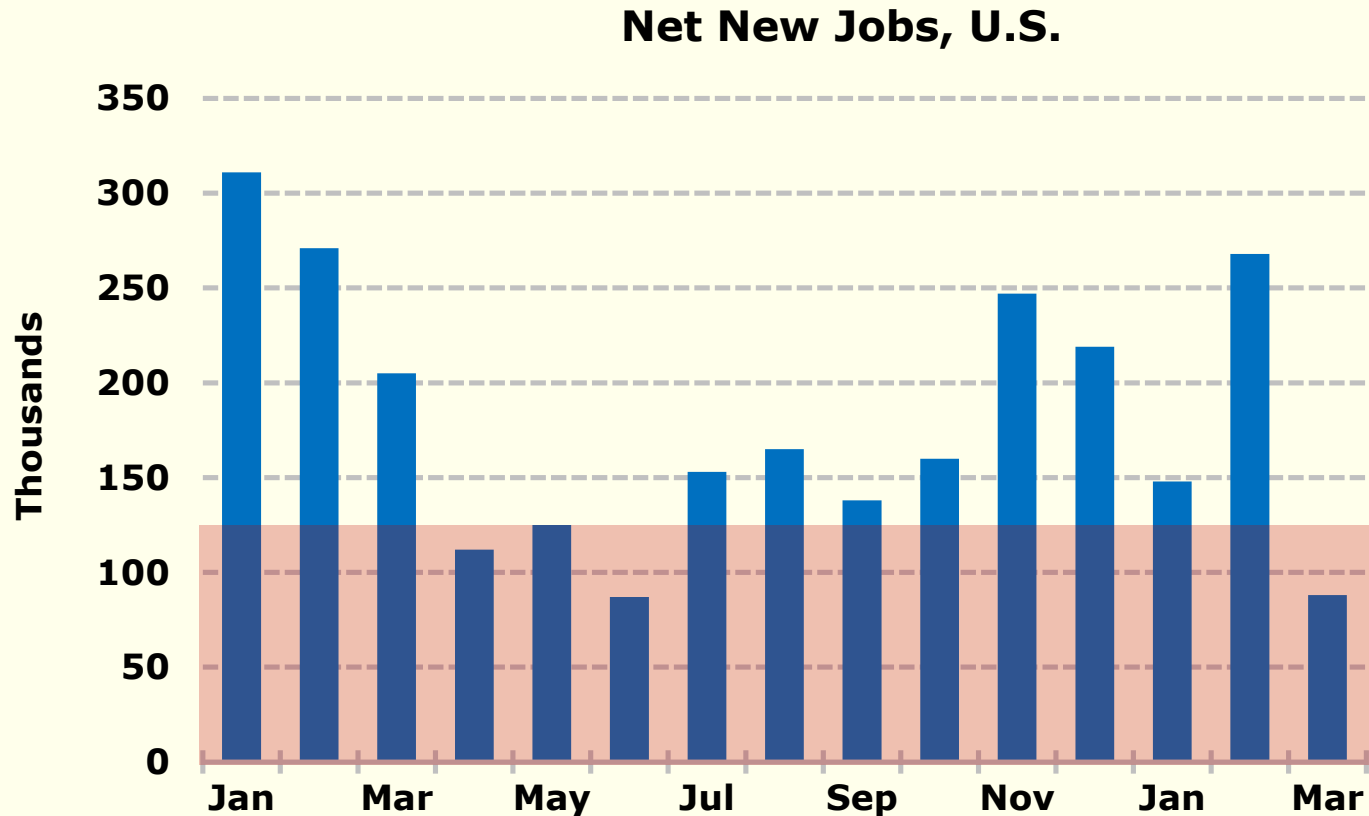
Source: ERFC March 2013 forecast; historical data through 2012

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# Job growth remains weak

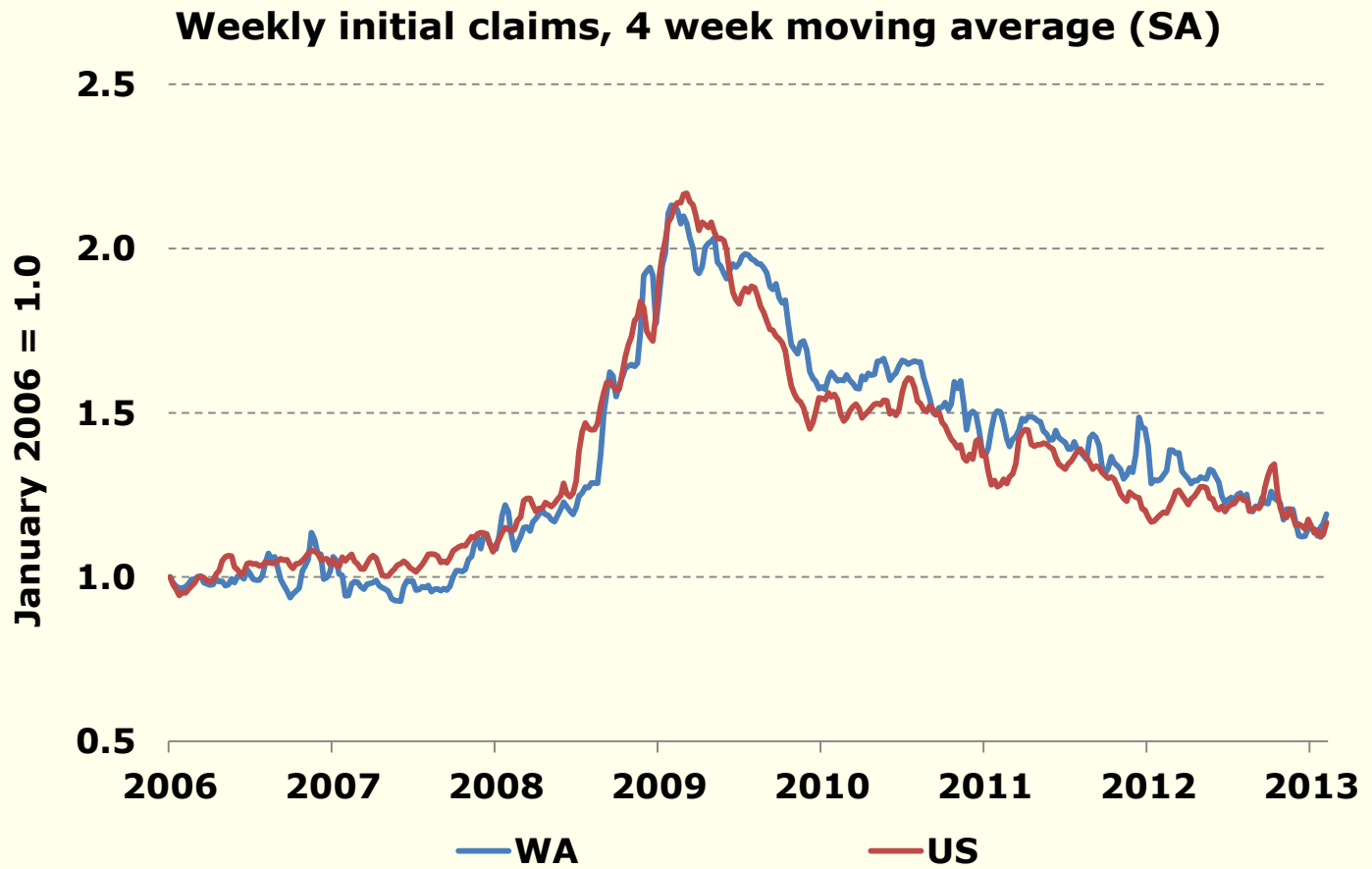
The economy needs to add roughly 125K jobs each month just to keep up with growth in the labor force



Source: Bureau of Labor Statistics, data through March 2013



# Initial unemployment claims are declining



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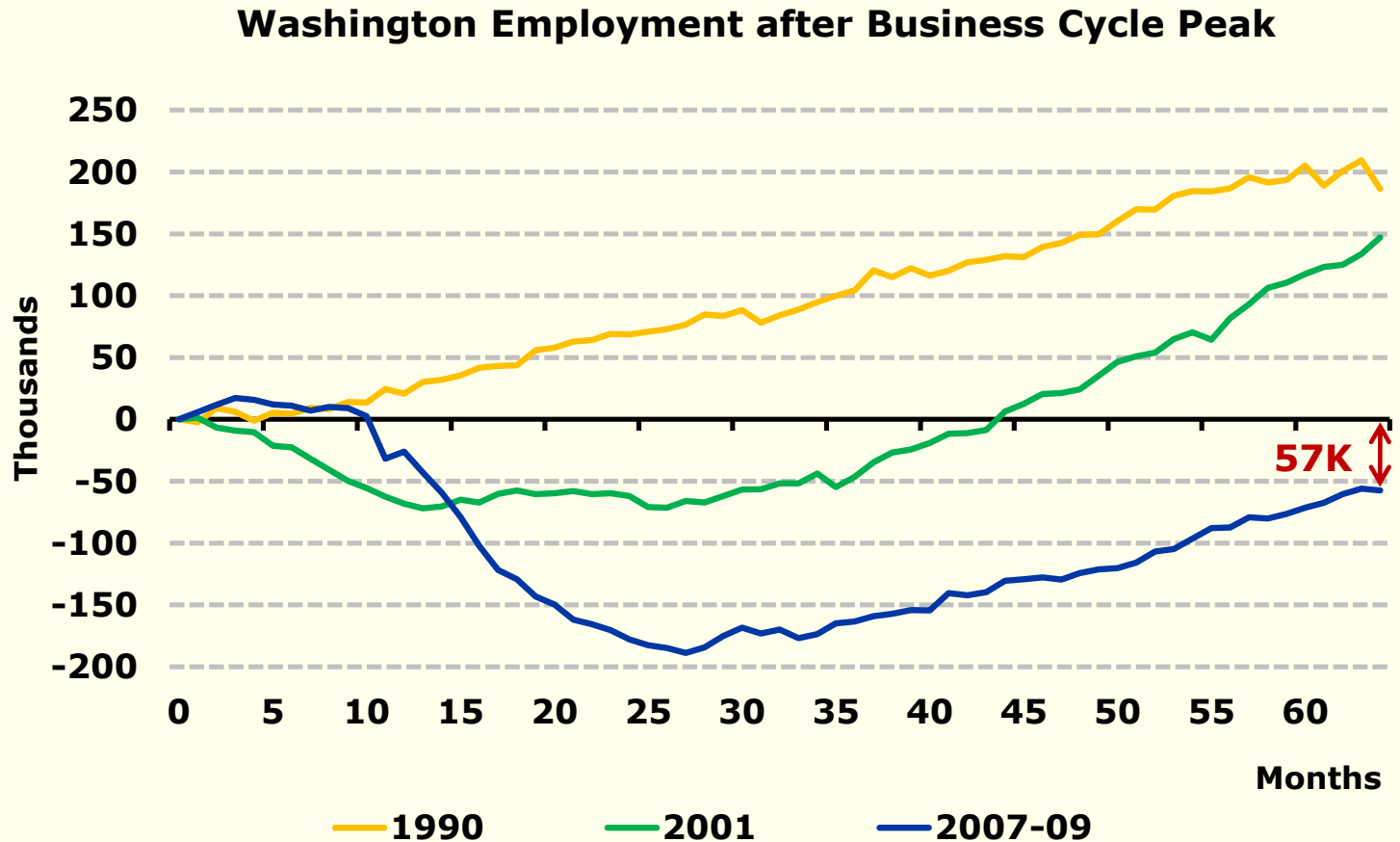
Source: US Dept of Labor/BLS; data through March 2013

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# The decline in employment has been severe



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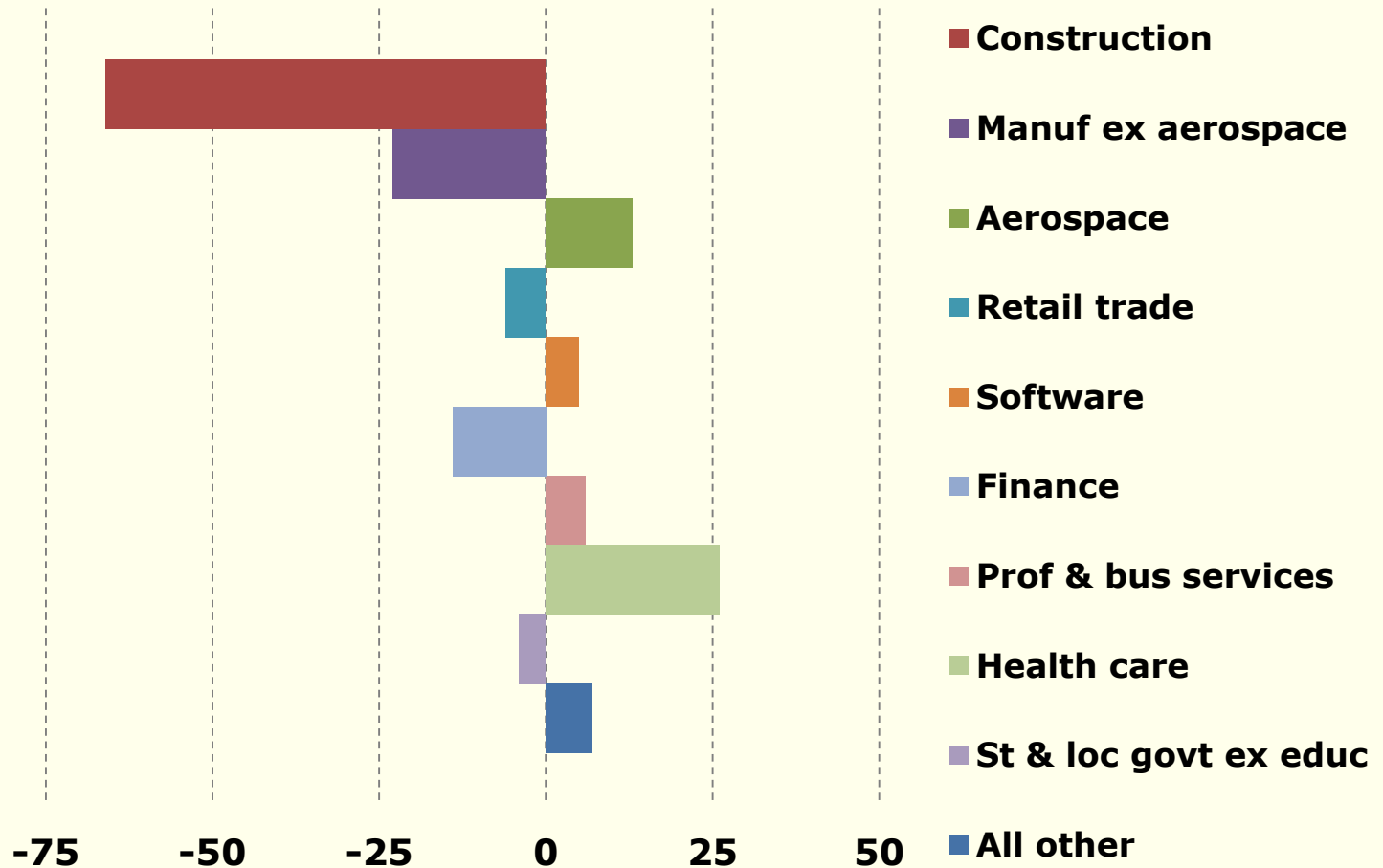
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Source: WA ESD, ERFC; data through March 2013

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# Employment change from pre-recession peak (thousands)



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WA State Employment Security Dept, ERFC; data through March 2013

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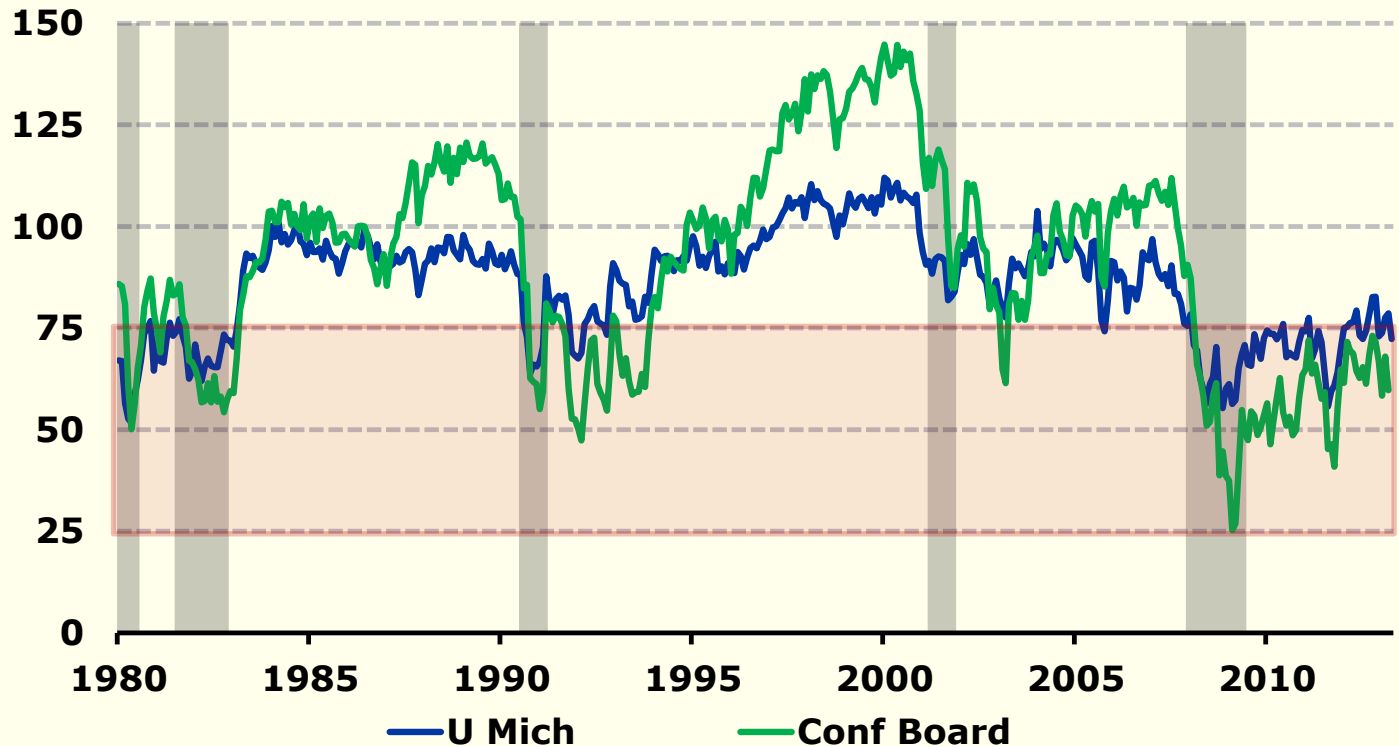


# Consumer confidence remains fragile

**Index**

**Mich: 1966Q1 = 100, SA**

**Conf Board: 1985 = 100, SA**



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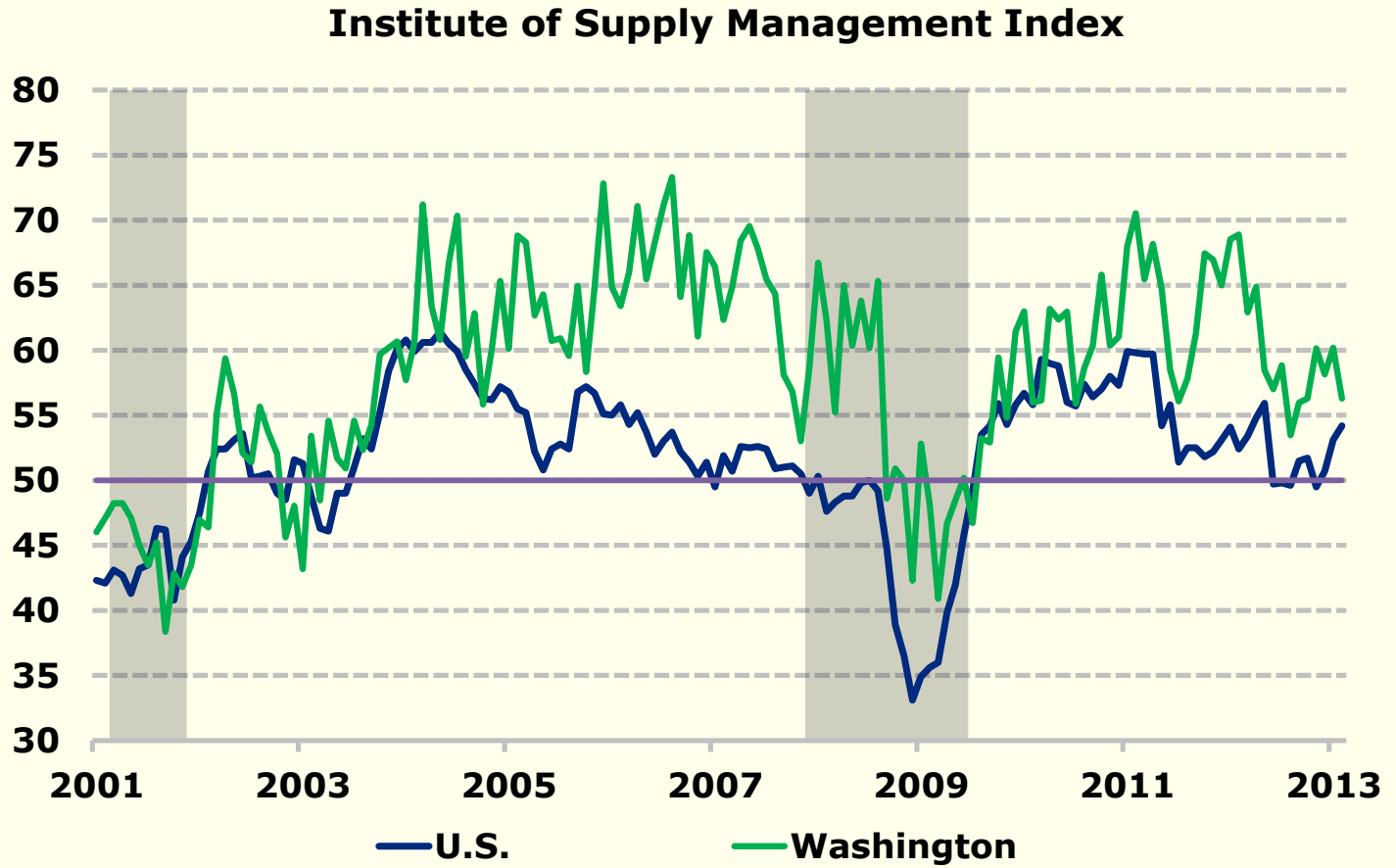
Source: University of Michigan; Conference Board, data through April 2013

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# Manufacturing remains weak nationally

An index greater than 50, implies growth

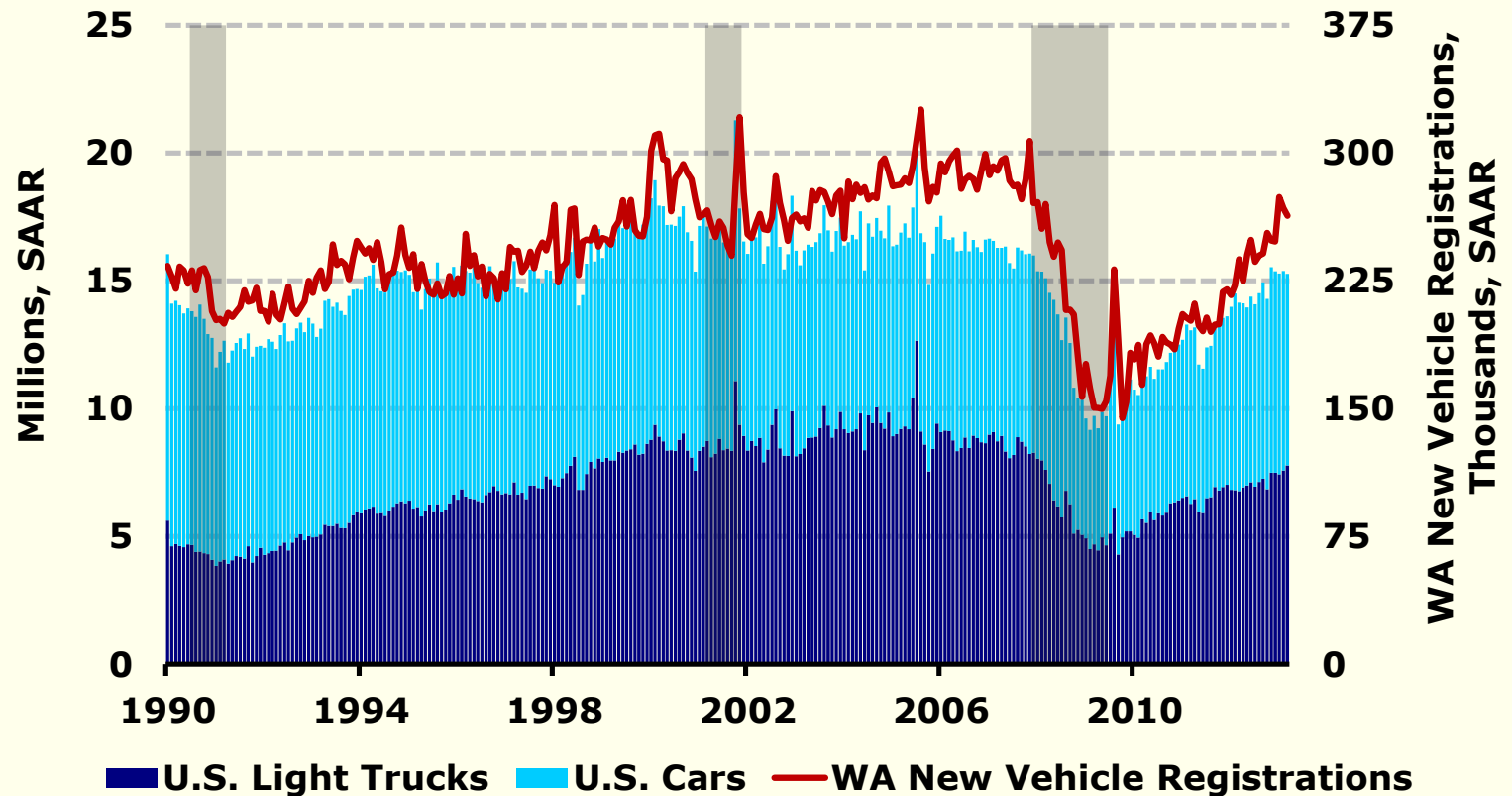


Source: Institute of Supply Management; data through February 2013



# Vehicle sales continue their upward trend

WA new vehicle registrations in March were up 11% year-over-year.



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Source: Autodata Corporation, WA DOL; data through March 2013

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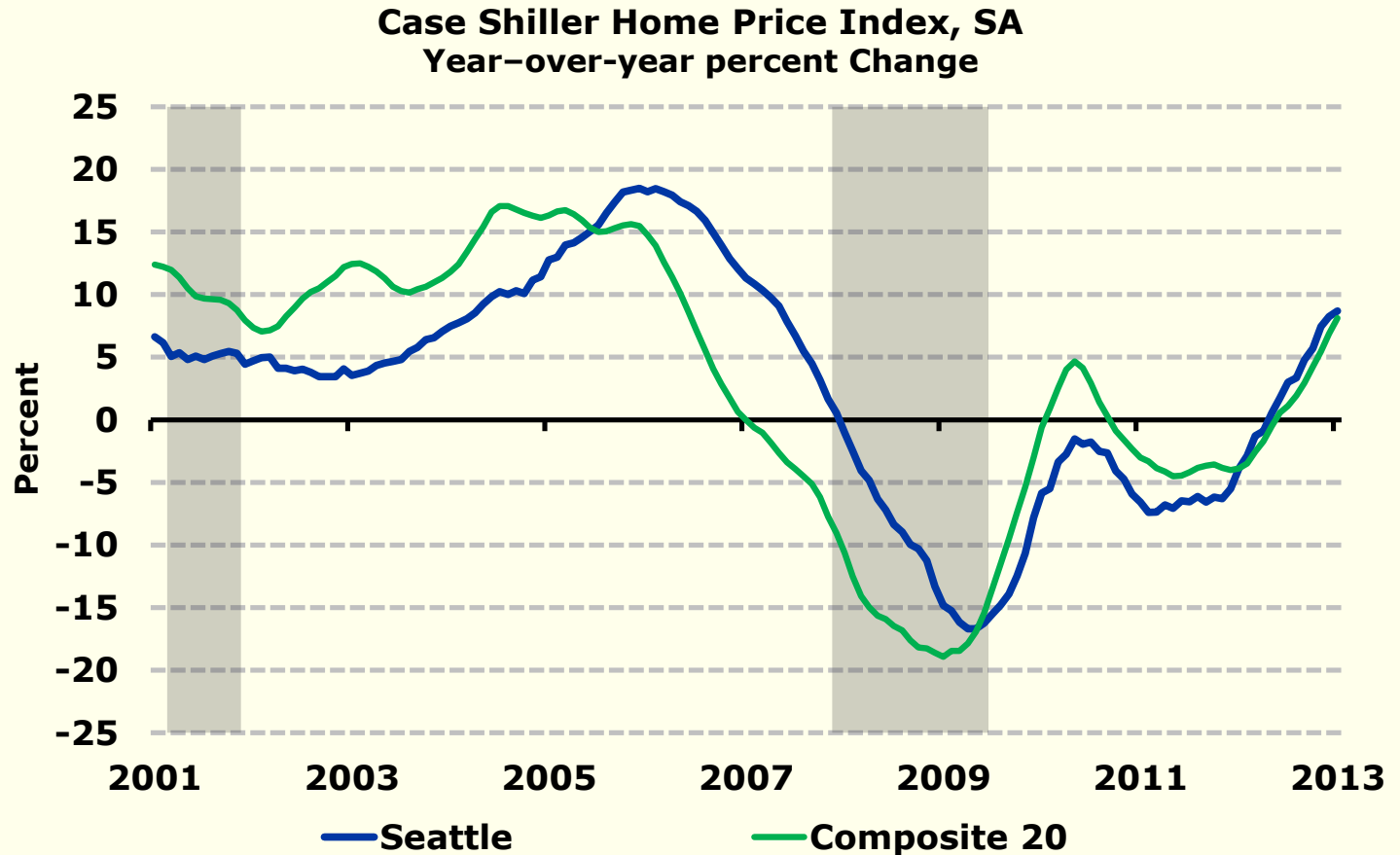


# Single-family home prices continue to increase

Jan 2013

U.S. is up  
8.1%

Seattle is  
up 8.7%



Source: S&P/Case-Shiller; data through January 2013



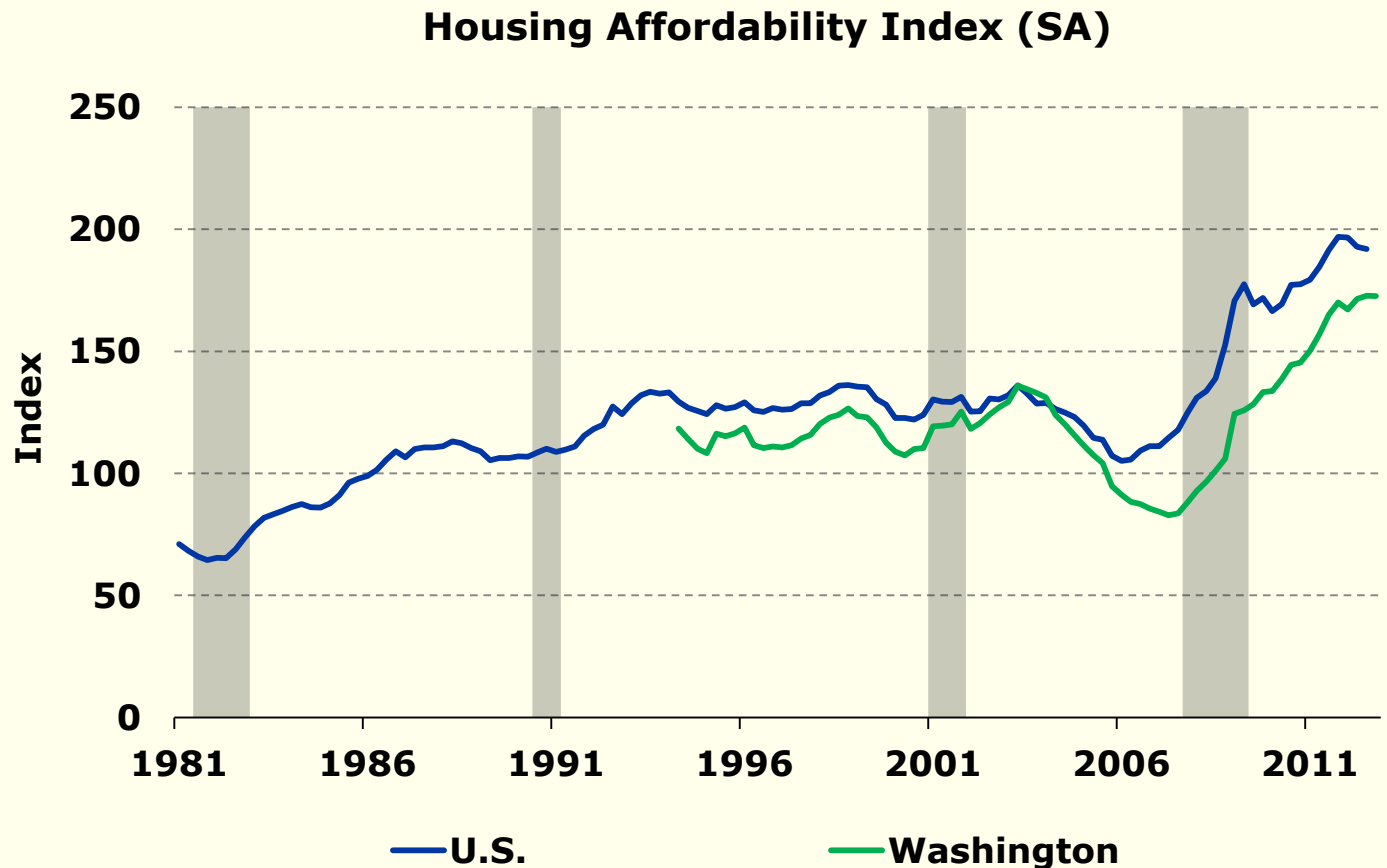
# Home affordability remains in record territory

Affordability is 100 when the median income can just afford the median priced home. Above 100 means the median income can afford more than the median priced home

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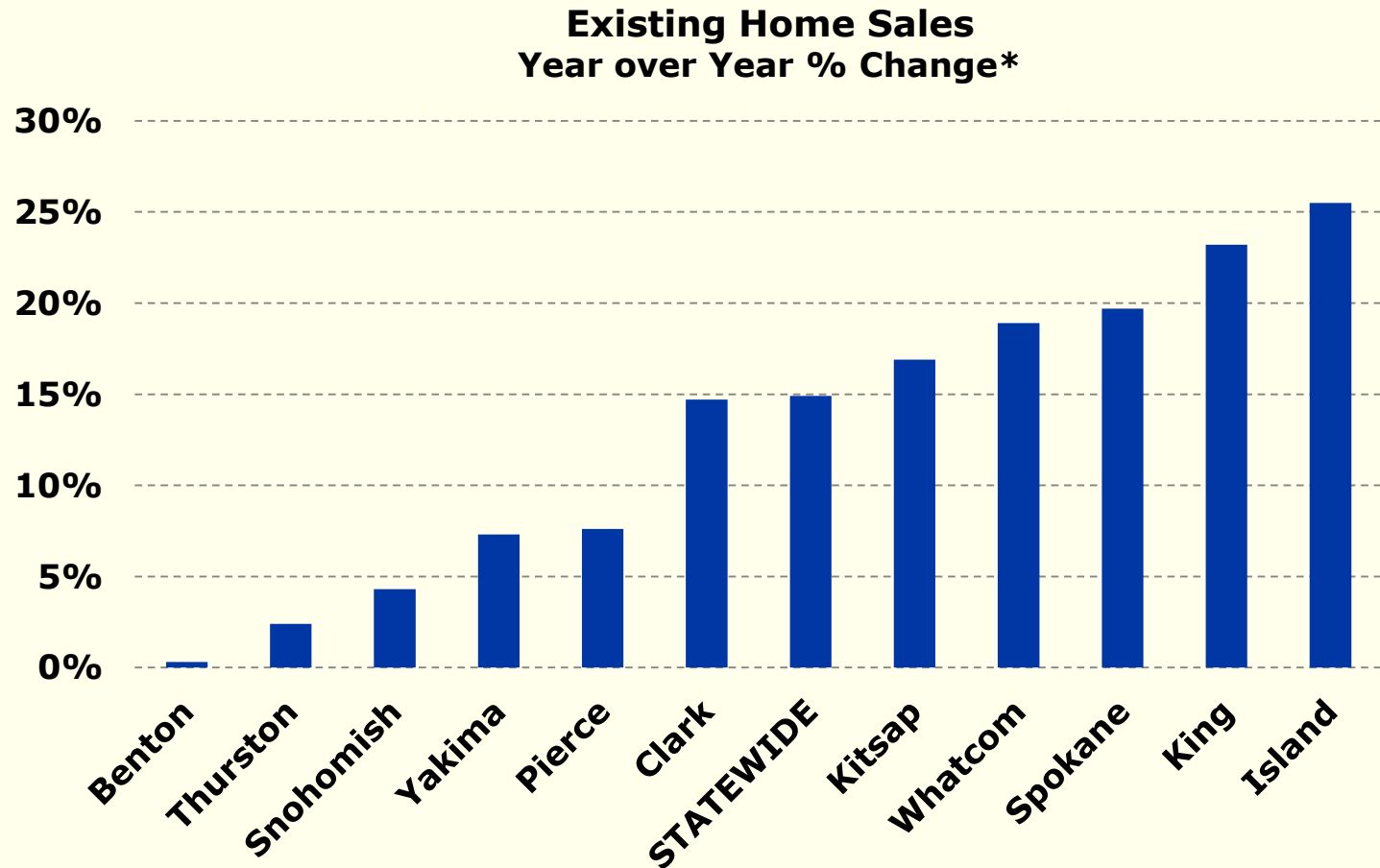
Source: National Association of Realtors, Global Insight, Washington Center for Real Estate Research; data through 2012 Q4

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# Strong growth in existing home sales statewide

\*Counties with 2% or more of existing home sales, 2012Q4



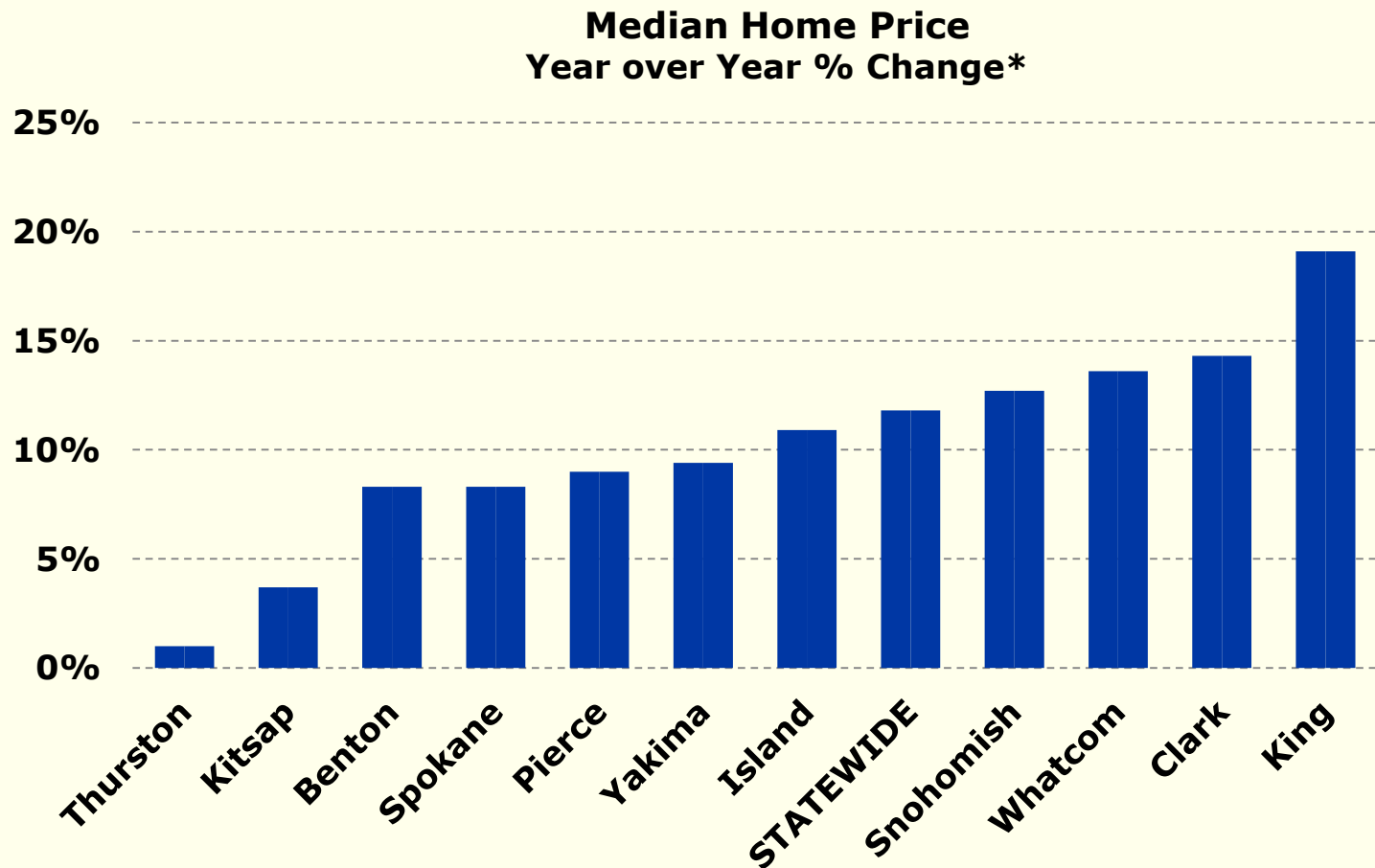
Source: WA Center for Real Estate Research, ERFC; 2012Q4 data





# Considerable variation in home price changes across state

\*Counties with 2% or more of existing home sales, 2012Q4



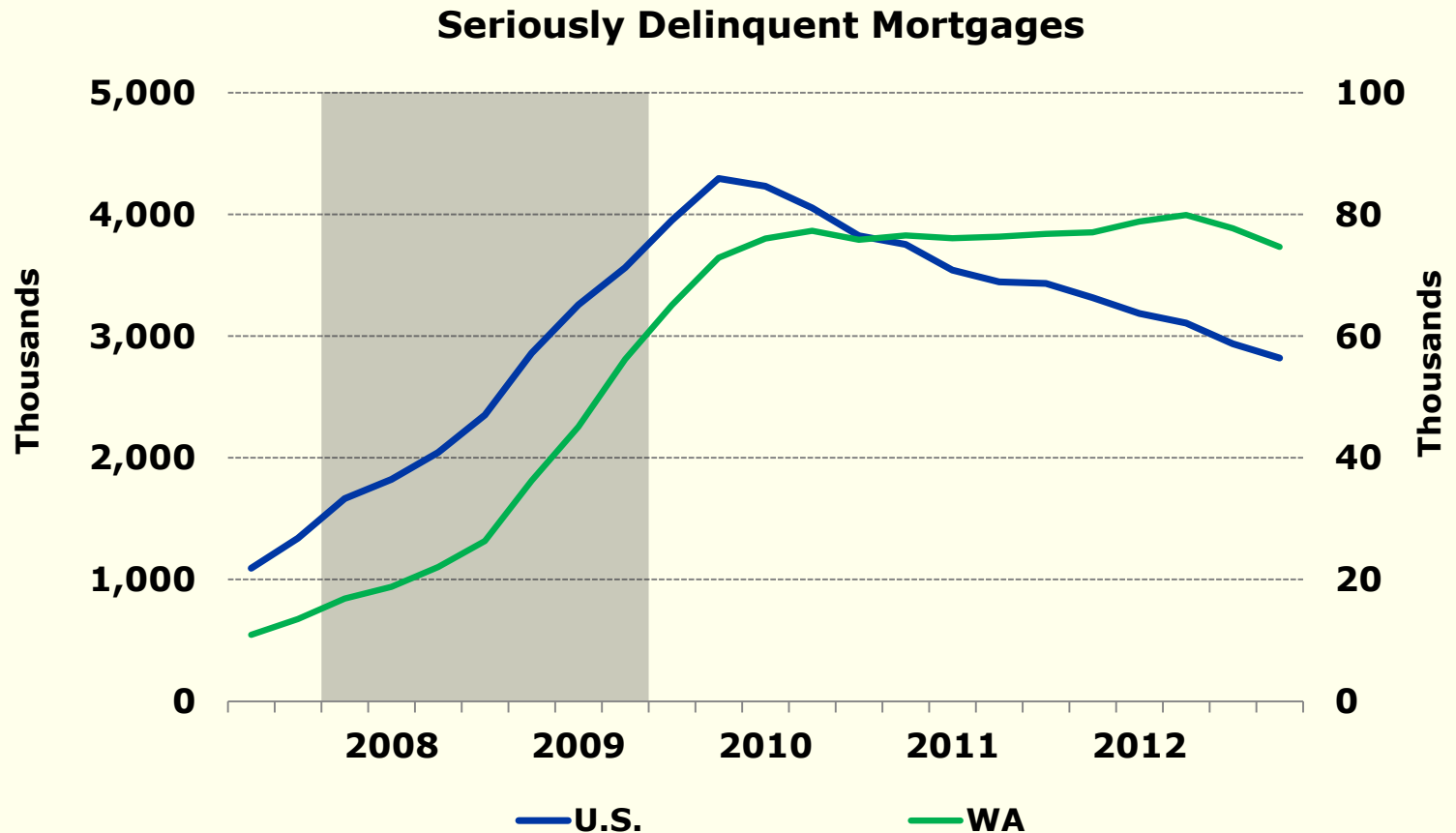
Source: WA Center for Real Estate Research, ERFC; 2012Q4 data



# Seriously delinquent mortgages declining more slowly in WA

Seriously delinquent mortgages, 2012Q4:

WA = 6.6%  
U.S. = 6.8%

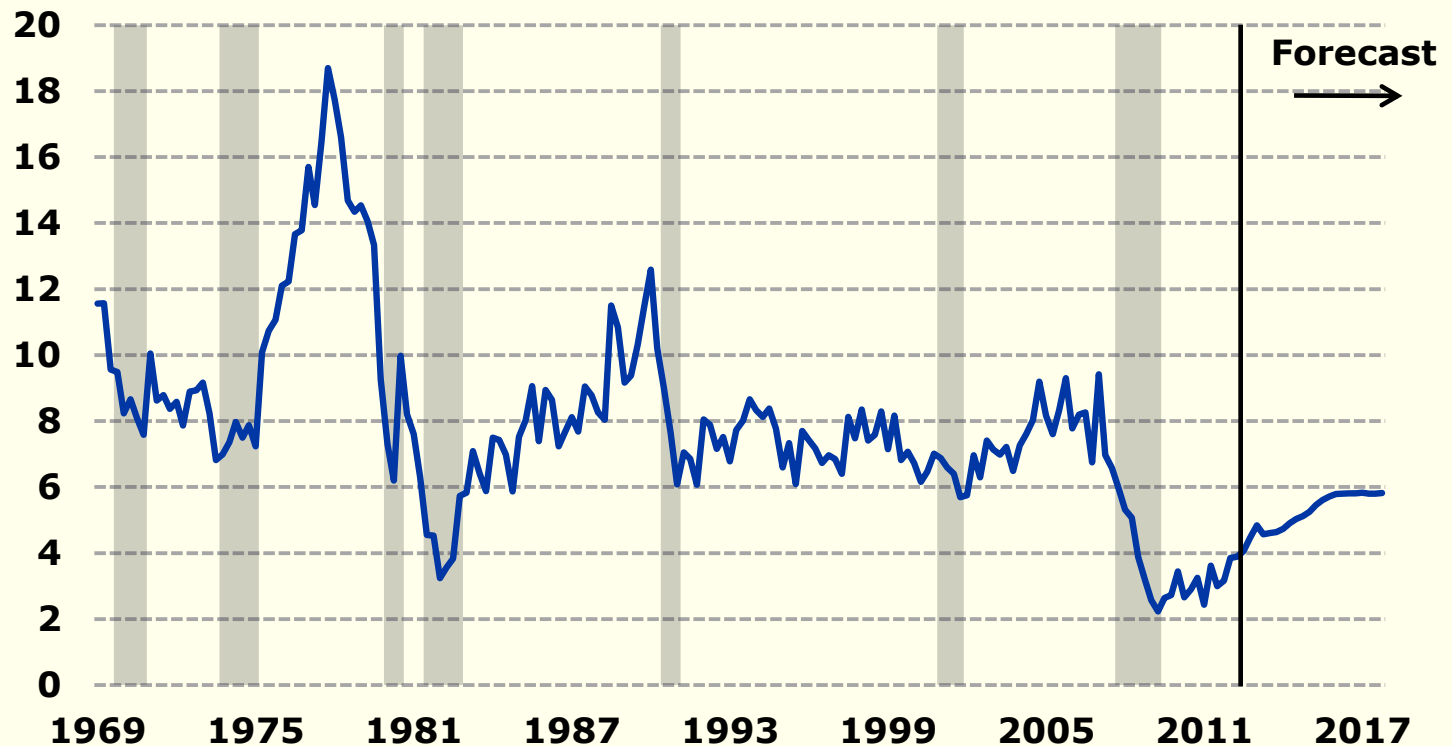


Source: Mortgage Bankers Association; data through 2012 Q4



# Housing permits relative to population will still be below historic levels in 2017

**Washington Housing Permits per 1,000 People**



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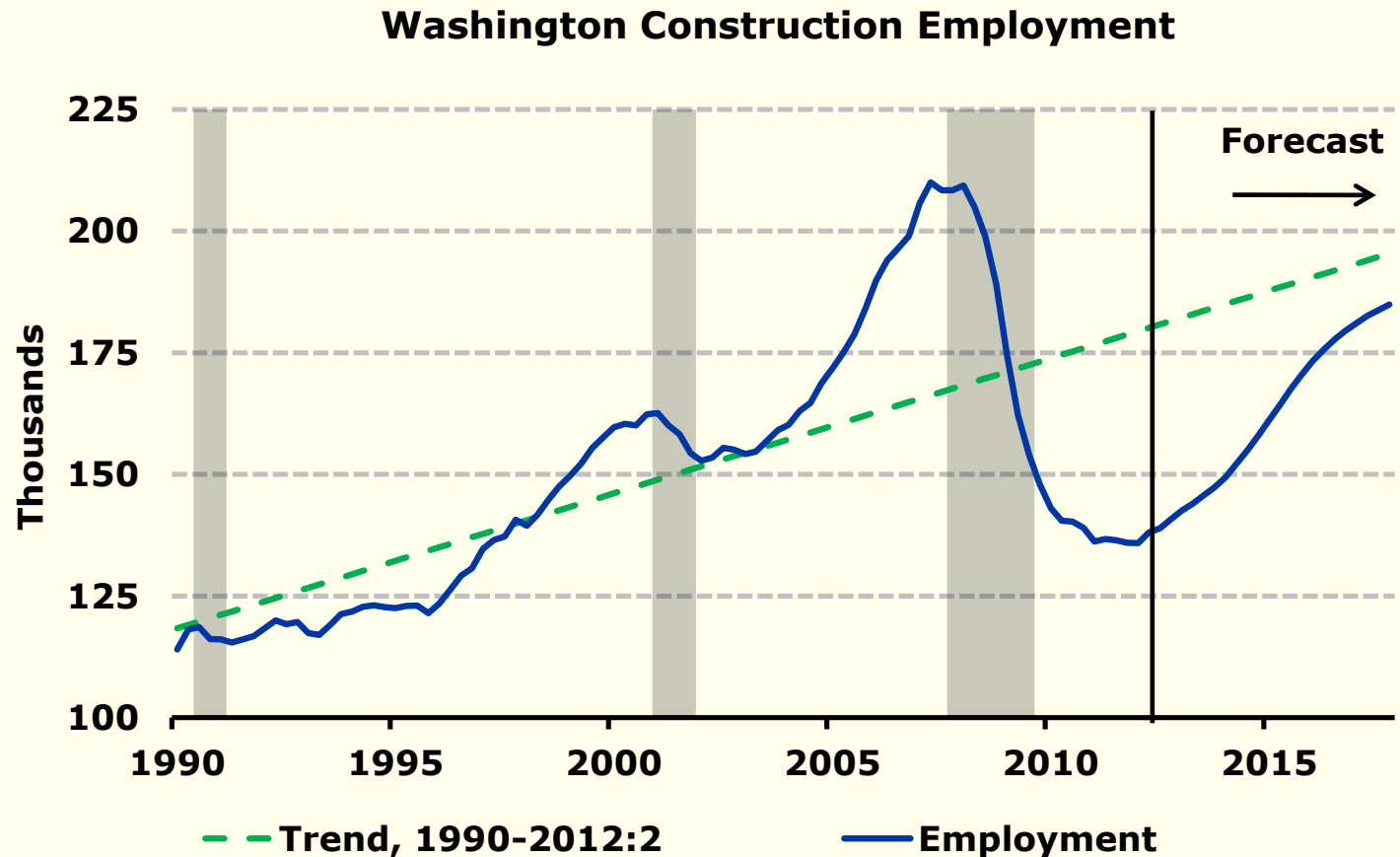
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Source: U.S. Census Bureau, ERFC March 2013 Forecast; historical data through 2012 Q4

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# Washington construction employment will remain below trend throughout the forecast



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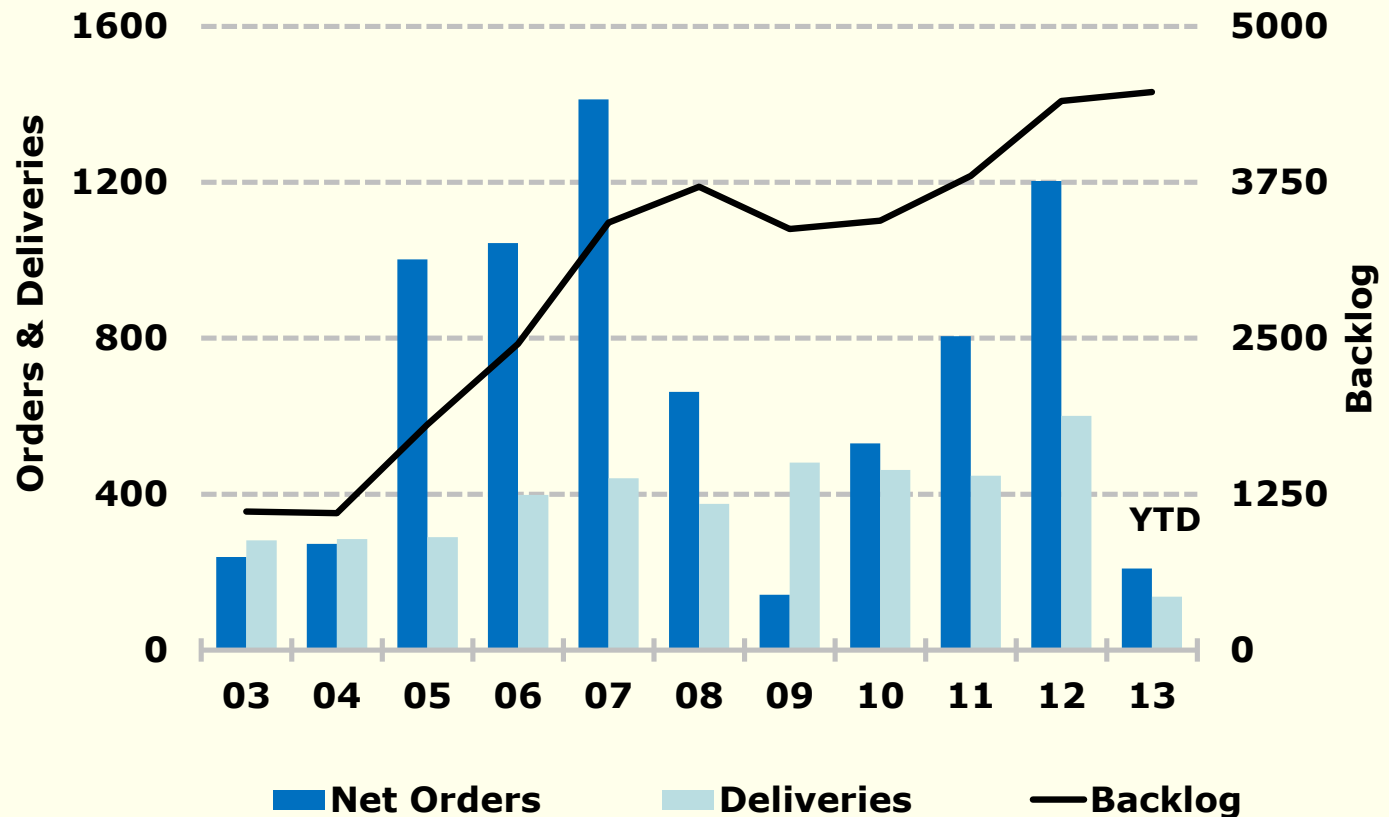
Source: ERFC March 2013 forecast; historical data through 2012Q4

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# Boeing has 7 years of commercial orders on its books

Excludes the military's new refueling tanker



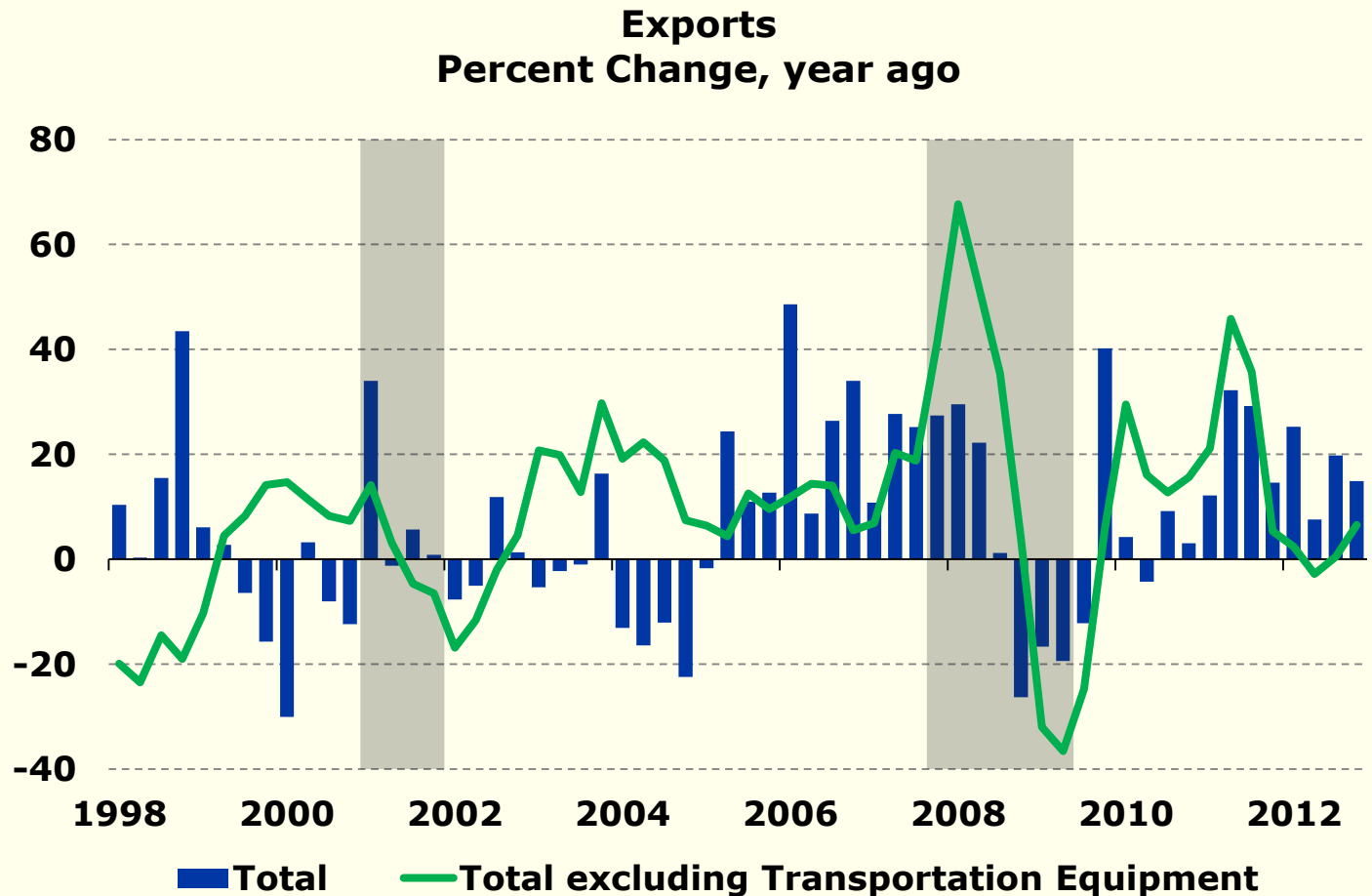
Source: Boeing, data through March 2013



# WA export growth has slowed

Trans. Equip.  
exports are up  
24% year-over-  
year in Q4

All other  
exports are up  
just 7% year-  
over-year in Q4

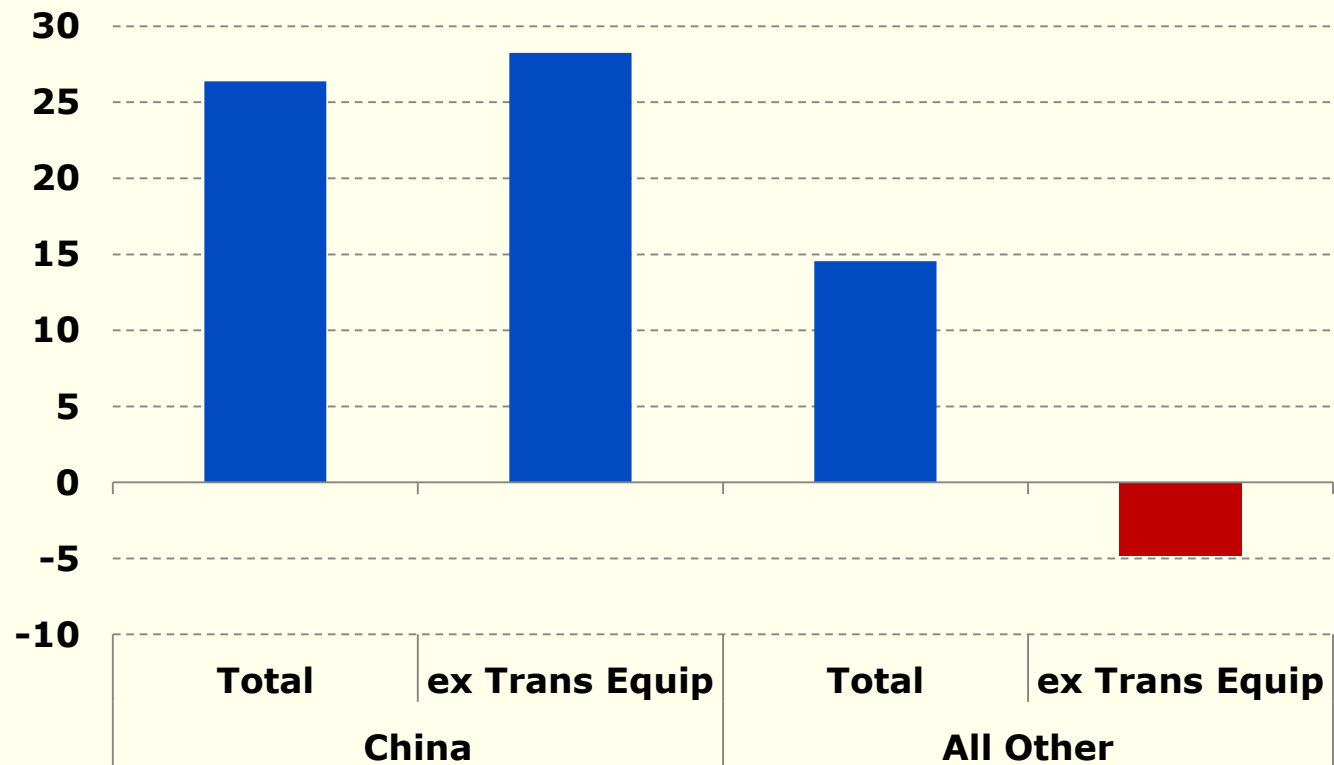


Source: WISER Trade Data; data through 2012 Q4



# Non Transportation Equipment exports outside of China are declining

**Washington Exports 2012 % Change**



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Source: Wiser Trade Data; through 2012

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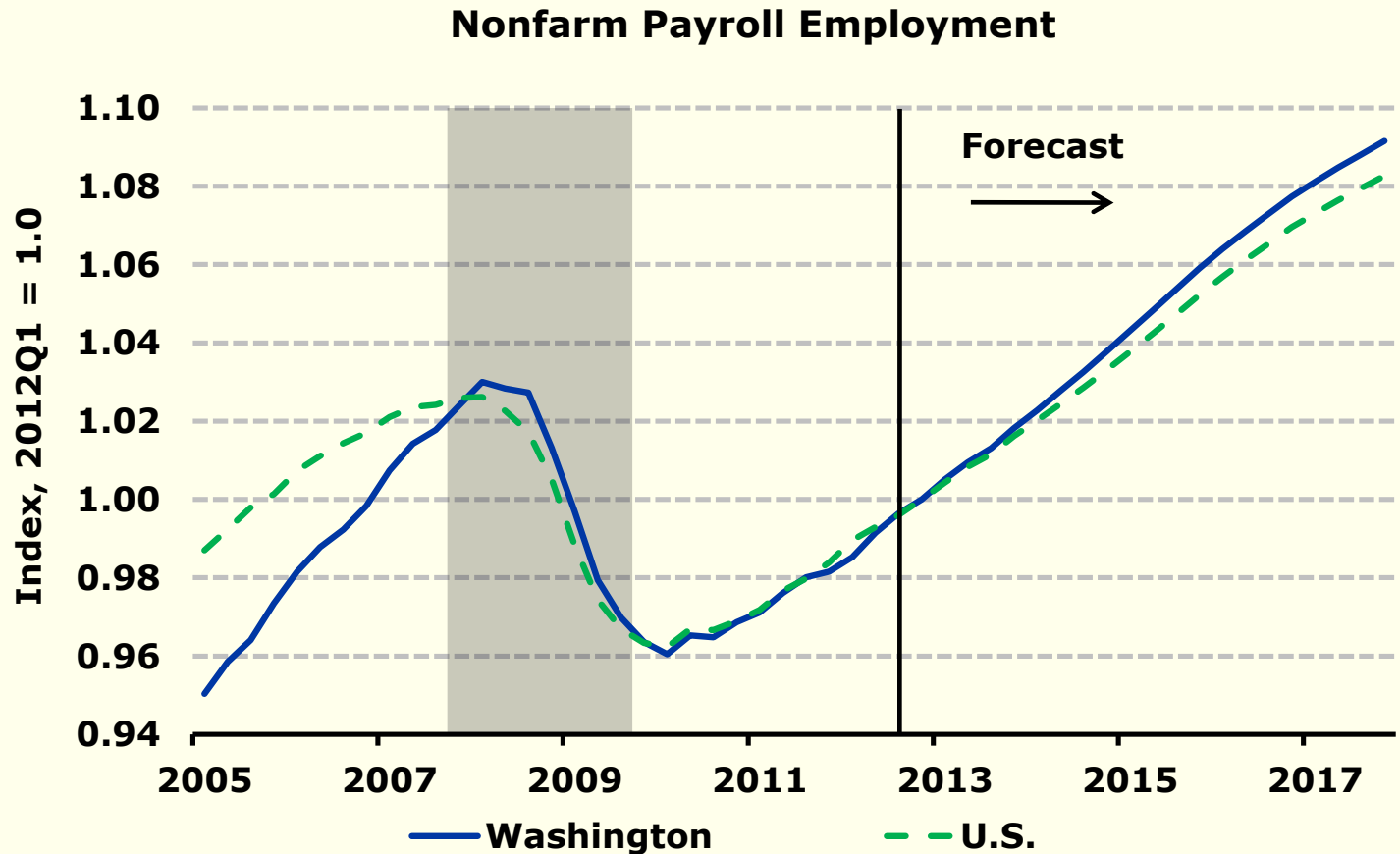


# WA employment will recover slightly faster than the U.S.

Date of regaining peak:

**WA:**  
2014Q3

**U.S.:**  
2014Q3



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Source: ERFC March 2013 forecast; historical data through 2012Q4

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# WA personal income will recover slightly faster than the U.S.

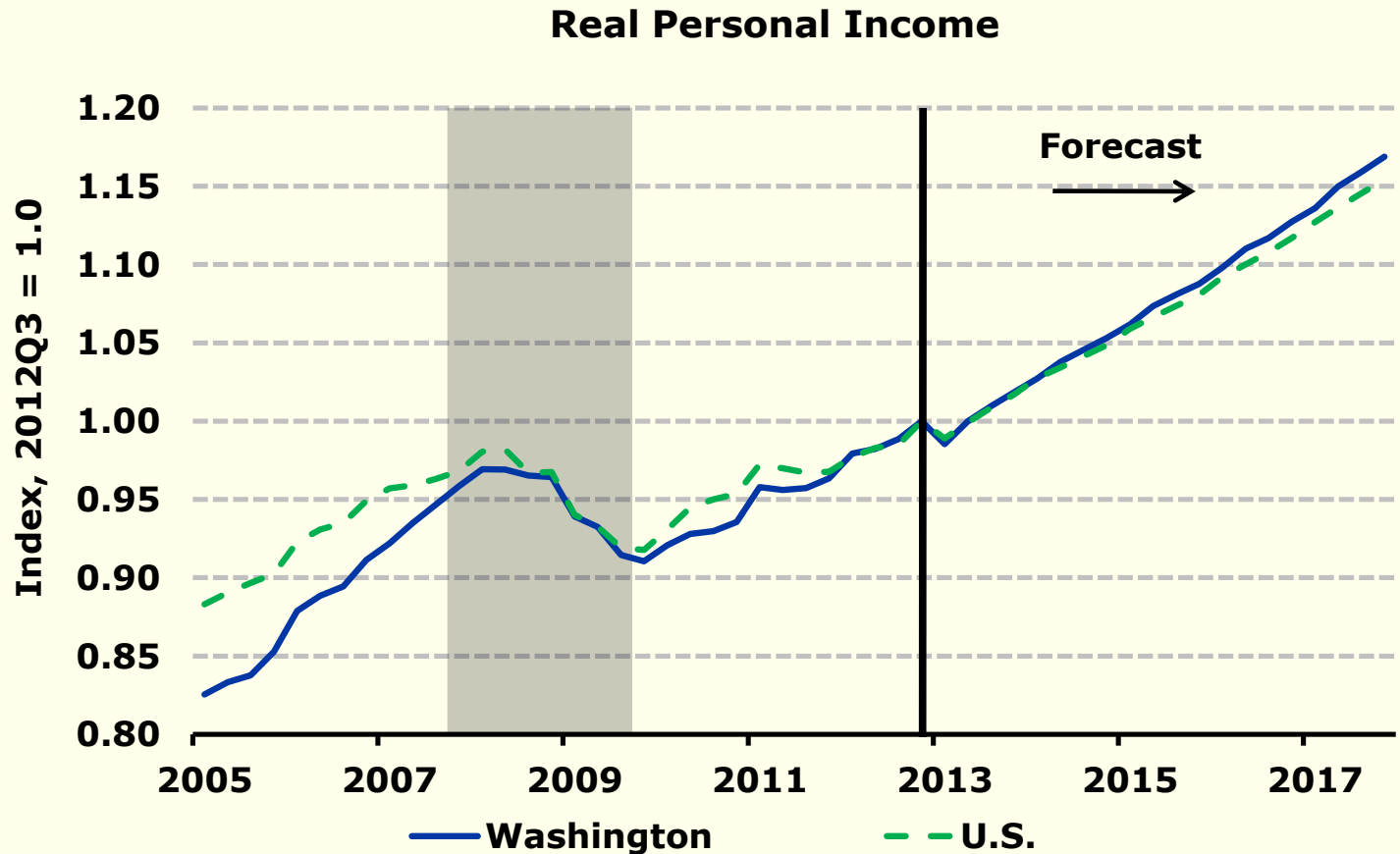
Date peak regained:

**WA:**

2012Q1

**U.S.:**

2012Q2



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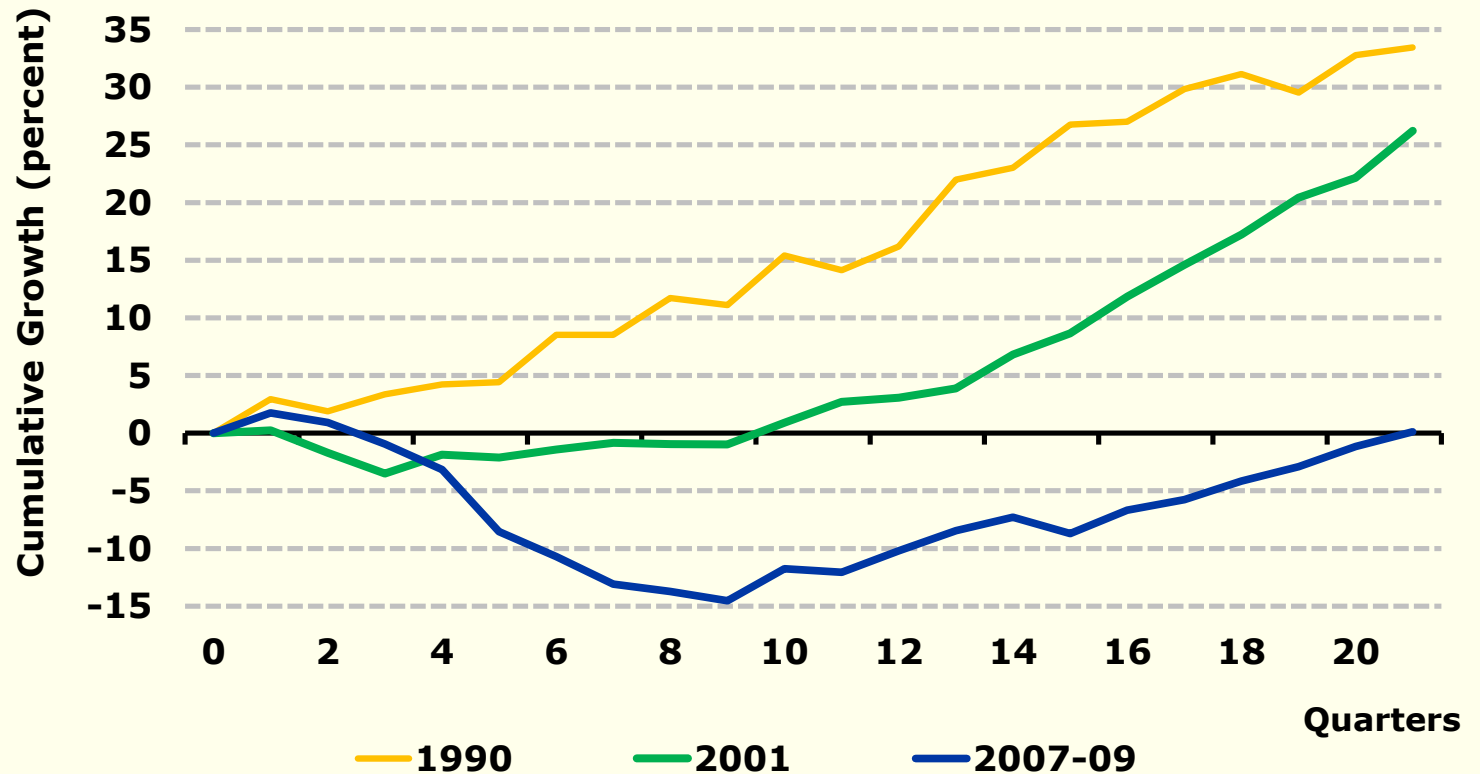
Source: ERFC March 2013 forecast; historical data through 2012Q4

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# Revenue collections have been weak compared to past recoveries

**Revenue Act Collections after Business Cycle Peak**



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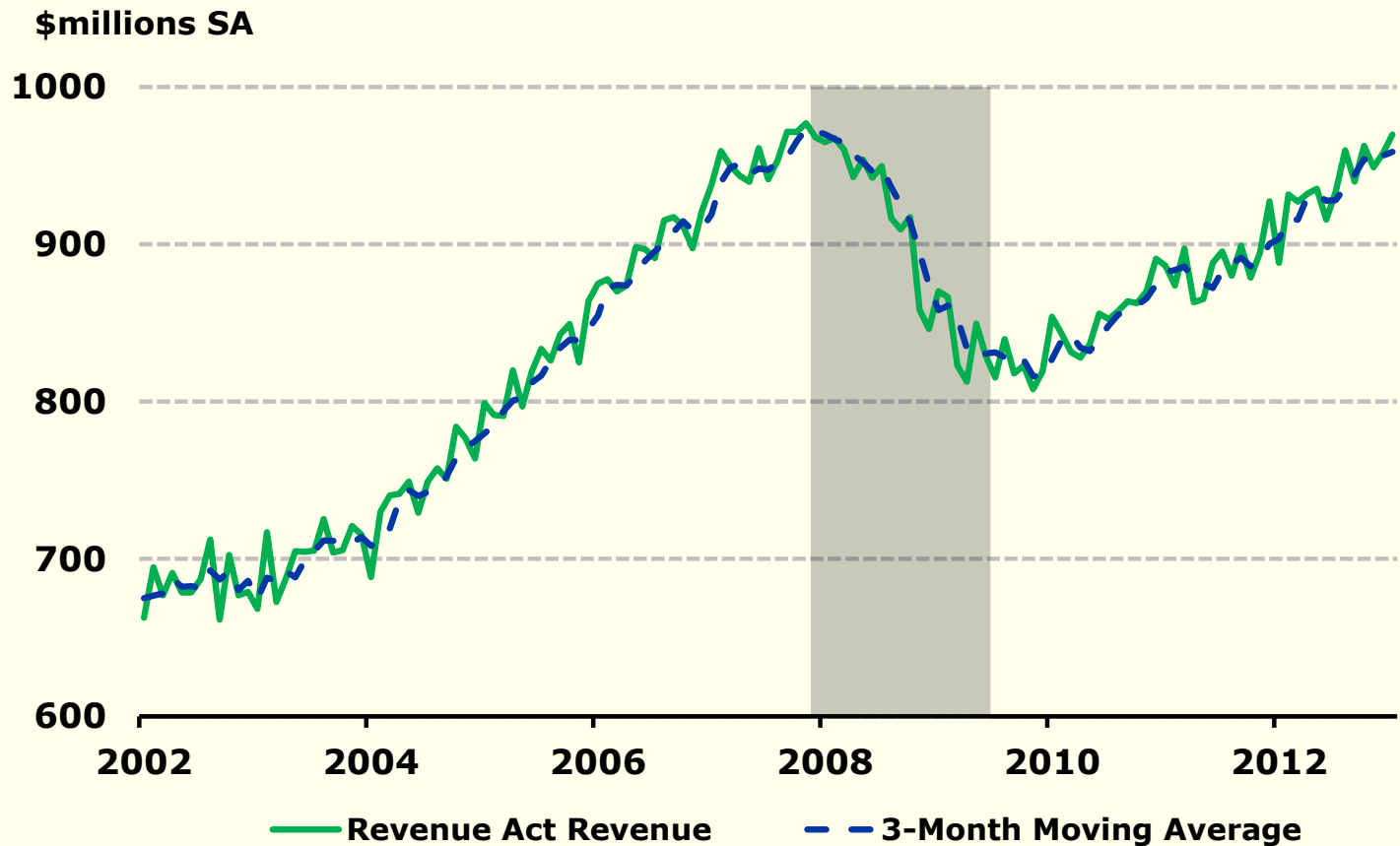
Source: ERFC; data through 2012 Q4

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# Revenue Act collections are still on an upward trend

Collections were up 5.0% year-over-year for fourth quarter 2012 activity (November 11, 2012–February 10, 2013 collections)



\* Adjusted for large one-time transactions, amnesty payments and reporting frequency change, current definition of Revenue Act

Source: DOR and ERFC; monthly data through estimated January 2013 activity

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# REET activity returning to prior trend after end-of-year rush

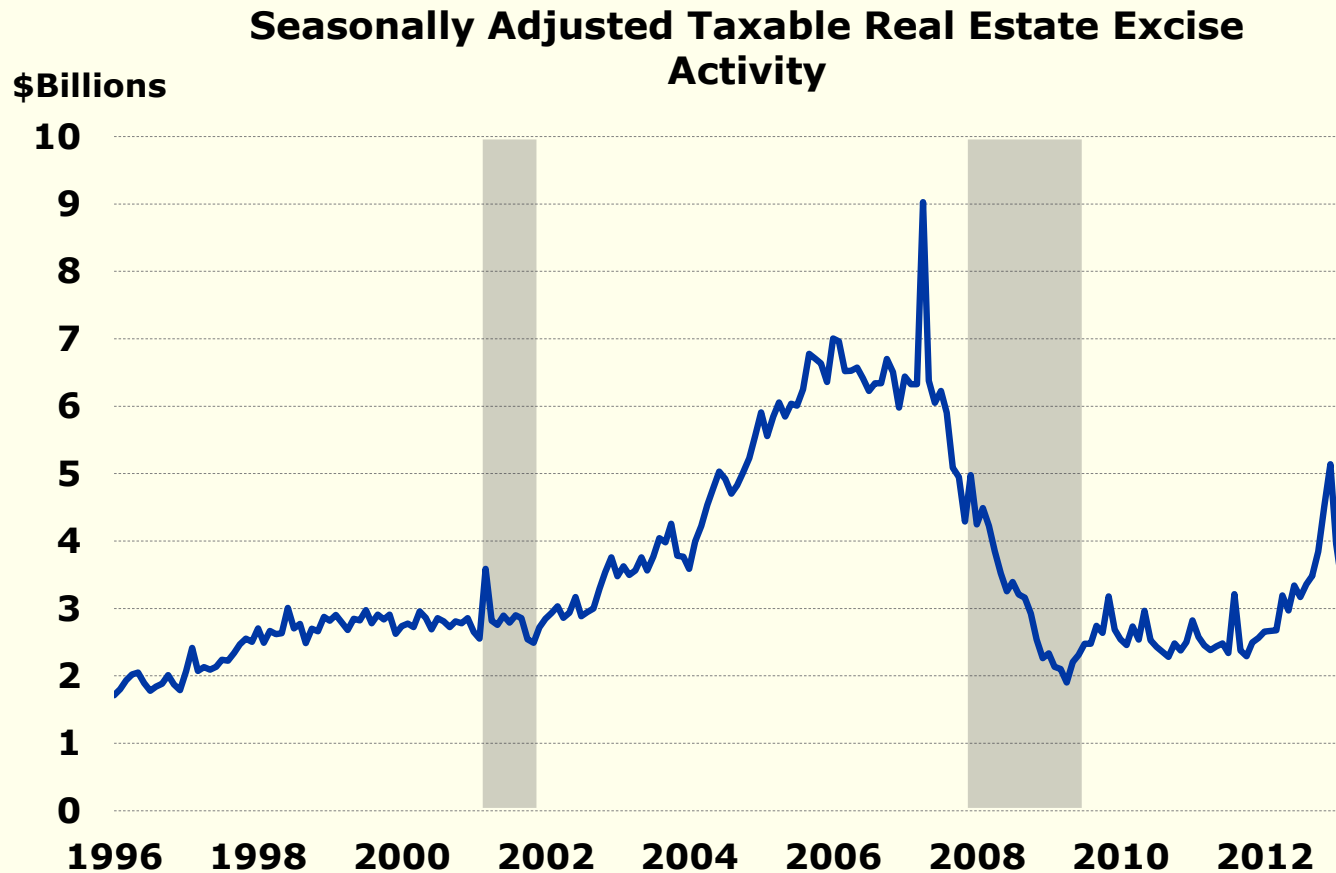
2012 real estate sales were elevated due to the incentive to claim capital gains before taxes increased in 2013.

There was a rush in sales at the end of the year, particularly in commercial real estate and high-end residential properties.

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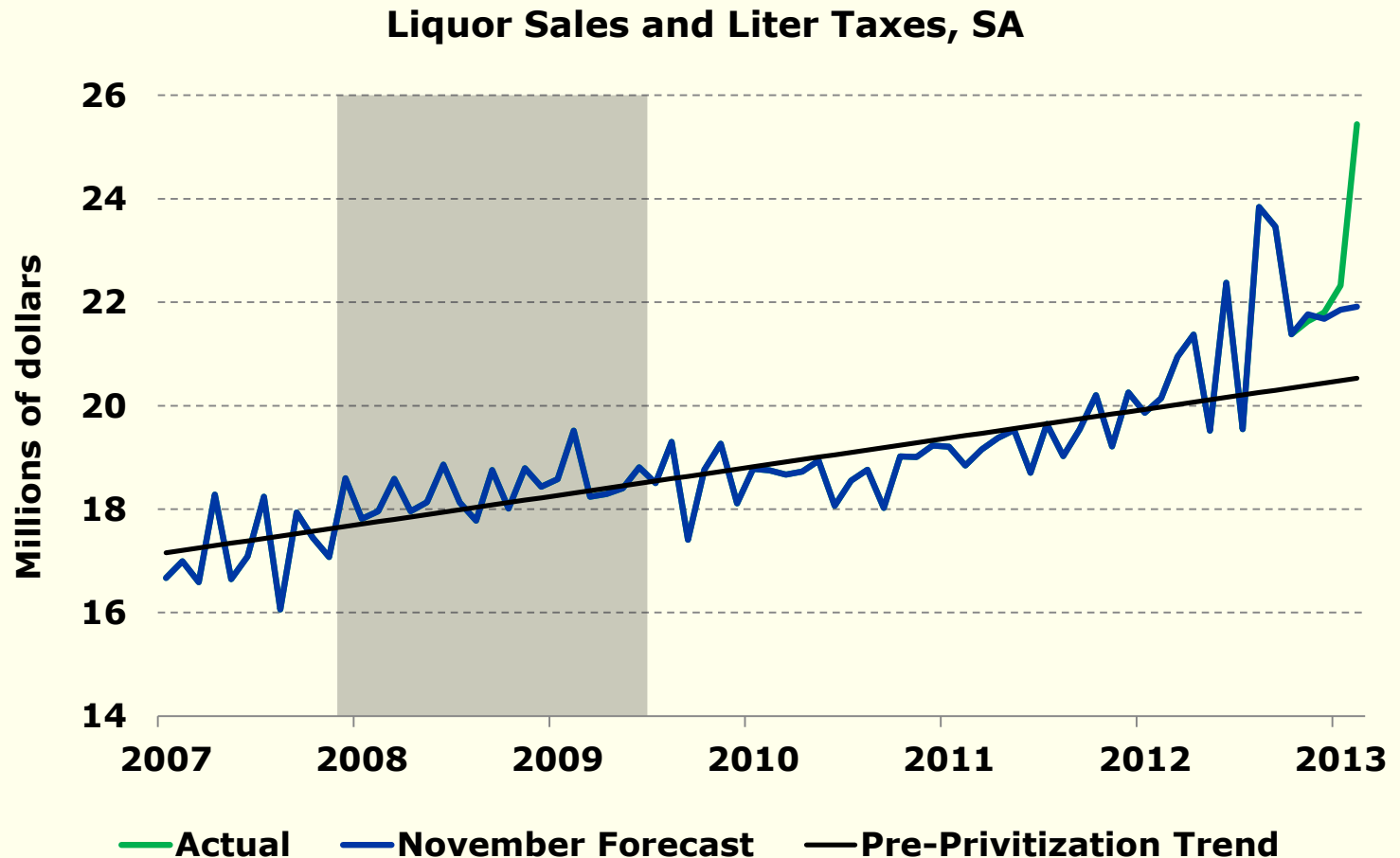


Source: ERFC; Monthly data through February 2013 preliminary



# Revenue for liquor sales has been volatile recently

Revenue was \$3.6 million (3.9%) above the November forecast



Source: DOR, ERFC; data through February 2013

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# Conclusion

- Economic growth remains slow, especially for a post-recession recovery
- Positive signs include the recovery in housing and its impacts on the construction sector, auto sales, and the Boeing backlog
- The level of uncertainty in the baseline remains extremely high, and downside risks outweigh upside risks
- Our next forecast is June 25<sup>th</sup>



# Questions



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